Maine Policy Review

Volume 2 | Issue 3

1993

The Clinton Administration's Vision for Economic Development

Laura D'Andrea Tyson

Three perspectives: The impact of public policy on the competitiveness of Maine's business and industry

Maine Policy Review (1993). Volume 2, Number 3

The twentieth anniversary of the Governor's Economic Development Conference last October focused on the impact of public policy on the competitiveness of Maine's business and industry. Among many other important presentations, the University of Maine-sponsored conference featured a televideo keynote address by the Clinton Administration's top economic advisor, Laura D'Andrea Tyson. Tyson's remarks, which detailed the Administration's policy initiatives meant to enhance the nation's competitiveness relative to the international economy, are presented in this issue of Maine Policy Review, *along with two other presentations as representative of the quality of the discussion that occurred at the conference. UNUM Chief Executive Officer James F. Orr III cautioned conference attendees that, while President Clinton deserves credit for some of his early initiatives, the path to establishing a national economy that will position the U.S. for the next century is a long and difficult one. Finally, Warren C. Kessler, president of Kennebec Health Systems, assesses Clinton's health reform proposal.*

The Clinton administration's vision for economic development

by Laura D'Andrea Tyson

The overarching goal of the Clinton administration's economic strategy is to strengthen the United States' position as a high-wage, high-skill economy. Only with such an economy can we restore and maintain the American dream for the average American family. The goal is competitiveness in the truest sense of the word; that is, the ability of our producers to meet the test of international competition while at the same time providing rising living standards for all of our citizens. To achieve this goal the Clinton Administration has a vision of government as a facilitator, helper, catalyst, and partner. The primary responsibility for what happens to the economy obviously is with the private sector, with the millions of men and women, and with the millions of American businesses, who create production, employ people, generate wages, and generate income. That is our vision of government involvement.

Deficit reduction

Given that vision, what are the components of the policy that we are trying to pursue? The first component is deficit reduction. We have worked very hard this year to get our economic plan through Congress. Our decision to begin with deficit reduction reflects our belief that, as long as the government was running an unsustainably large deficit, it was borrowing funds from the private sector. These resources could be available to finance private investment by companies to create new technologies and new jobs and by households to send their children to college or to build new homes. In short, we needed to reduce the drain that government borrowing was making on the nation's financial resources. A gradual deficit reduction program will, over five years, bring the deficit down dramatically as a percentage of the economy. And it will free resources to be used productively by the private sector -- the sector of the economy that is responsible for our ultimate prosperity.

We have been very gratified by the tremendous response of capital markets, with long-term interest rates that are at historically low levels. We can already see the results in the economy. For example, in parts of spending in the economy that are interest-sensitive, such as spending by businesses on equipment, spending by households on durable goods like automobiles or furniture, and even the most recent numbers on residential construction, these interest-sensitive parts of the economy are pulling the economy forward into continued recovery. Essentially all of the momentum for economic growth right now, in the first two quarters of this year, came from interest-sensitive spending. This reflects our basic rationale that, when the government reduces its borrowing, interest rates fall and the private sector can borrow more.

It is important to emphasize that this is a beginning. Although the economy seems to be sustaining its recovery, we would certainly like to see the recovery accelerate. In the third and fourth quarters of this year, the administration and almost all private forecasters are expecting a growth rate in the economy of about three percentage points. In the first half of this year, growth was actually under two percentage points. As these interest rate reductions affect the economy, we expect a more dynamic recovery.

But deficit reduction is only a beginning. We are working on several other initiatives, such as reducing government spending itself. Not only do we plan to reduce government spending relative to the size of the economy, but we also want to shift where the government spends its money. The government must respond to changes in the world economy in its own missions. We must spend more on civilian technology programs, for example. This country has historically spent heavily on promoting basic science and technology, much of it through Department of Defense programs. But as defense missions are scaled back, new outlets are required to support the civilian science and technology that generates new products for American companies and their workers to produce, and thus creates jobs and income.

Worker retraining

The administration is committed to working with the Congress to develop a very ambitious worker retraining program. In the current global economy, change is a daily part of life. Workers must change what they do several times during their working lives. We should view these changes as opportunities, but they can only be opportunities if workers can obtain the training needed to make these job changes and to be more flexible. Worker retraining is a very important component of this administration’s realignment of spending priorities. Over time, spending priorities must shift to greater infrastructure support so that the United States will have the best roads, the best airports, the best ports, and the best telecommunications infrastructure in the world. This infrastructure serves as the foundation for the private sector. Again, this reflects the partnership that must exist, so that the public sector works with the private sector to create economic prosperity.

Two new initiatives

Recently, the Clinton administration announced two policy initiatives that will characterize this administration. The first, the clean car program, has the government working with the major American car companies on a research program to improve the fuel efficiency of automobiles by a factor of three by the end of this decade. This is both a civilian technology support program and also a partnership program. Both the companies and the government will financially support this research. Everyone will benefit in the long run, both from environmentally superior automobile technology and from a more competitive American automobile industry to produce more jobs for American workers. This program is a good example of the shift in government priorities towards partnerships, which the Clinton administration believes to be so important.

The second program involves the consolidation of government export services. The United States has become more and more dependent upon exports for job creation. In the past, nineteen different agencies have spent money on export promotion. Because of that fragmentation, companies, particularly small and medium-sized companies, often cannot find the export program that they need. The administration has proposed a consolidation of these programs into centers that provide one-stop shopping for small and medium-sized companies that export products. In addition, major reductions in the controls on exports are being examined. National security regulations have often made it more difficult for companies to export. But with the end of the Cold War, policies must now reflect the real international challenge, which is competition in the world economy. These programs characterize some of the approaches that the administration will use to shift spending priorities.

Other initiatives

The administration is developing other initiatives that reflect partnership and change and that focus on international competition. One initiative is health care reform. The primary goal of reform is to provide health security to the millions of Americans who have none. The present lack of security is exacerbated by the fact that workers will change jobs frequently in the future. People should not be locked into their jobs, afraid of changing jobs because of the threat of losing health insurance. The administration believes it is important to allow the American worker to be flexible. Health care is also important to U.S. competitiveness, because many companies now pay exorbitant costs to provide health insurance for their workers. As a consequence, they cannot be as competitive in international trade. Health reform must provide security to the individual, make the work force more flexible, and make American companies more competitive.

A second major initiative, of course, is the North American Free Trade Agreement. Trade policy complements our domestic economic policy. The two key words in this trade strategy are "market access": that is, the federal government must strive to improve the market opportunities for American companies abroad. The policy objective is not to protect the American market; the objective is to open up foreign markets for American producers. If domestic economic strategies make American companies and workers more productive, then these companies only need market opportunities to win the international competition. The market access goal is being pursued in bilateral talks with Japan, in efforts to complete the Uruguay Round of the General

Agreement on Tariffs and Trade (GATT) talks by the end of the year, and in efforts to get Congress to pass the North American Free Trade Agreement (NAFTA). NAFTA, in particular, will dramatically open market opportunities for American companies that now face barriers to the Mexican market. Mexican barriers are much higher for U.S. products than vice versa. When NAFTA removes these barriers to the Mexican market , American companies will have more opportunities.

Many continue to ask, will NAFTA be successful in creating opportunities for American companies? Two different kinds of evidence clearly indicate that the answer to this question is "yes." First, since 1986-87, the Mexican government has unilaterally begun to reduce trade barriers. As a consequence, the American trade balance with Mexico has gone from a $5.7 billion trade deficit to a $5.6 billion trade surplus. American exports have increased from $14.7 billion in 1986 to over $40 billion in 1992. Incidentally, Maine has enjoyed part of this export boom to Mexico. Maine's exports to Mexico between 1987 and 1992 went up 700 percent, from $3 million to $23 million. Maine has been third among the fifty states in export growth to Mexico. Several product lines have benefited Maine in particular: leather products, fabricated metal products and forestry products. Department of Commerce calculations indicate that 800 jobs in Maine directly or indirectly depend upon exports to Mexico. Even though Maine is about as far from Mexico as one can get in the continental United States, Maine has benefited from improving trade relations. As NAFTA greatly expands these opportunities, all states will benefit.

Many people ask, "Isn't Mexico such a poor country that it really cannot afford to import much from us?" In fact, Mexico is now our third largest trading partner. On a per capita basis, Mexico buys more from Americans than Japan buys and more than the European countries buy. Out of every dollar that Mexico spends on imports, seventy cents comes to the United States. Mexico, as a poor country, is already buying more from the U.S. on a per capita basis than any of our trading partners except Canada. Imagine what greater prosperity in Mexico will mean for the demand for U.S. products. Mexicans like U.S. products and view U.S. producers as competitive sellers from whom they wish to buy.

That is the evidence that we already can see. When NAFTA is seen as a continuation of a trend that Mexico has already started, then the evidence indicates that the opportunities are very great. For those who would prefer some theoretical support for these observations, there is wide-spread support for NAFTA in the economic community, of which I am a member. All living Nobel prize winners in economics have signed a statement which declares that NAFTA will be good for the United States. There is bipartisan support for NAFTA. People from very different ideological and theoretical traditions have declared that this agreement will be good for the United States. Both theory and experience indicate that this market access agreement will create jobs in the United States. It will promote Mexico's prosperity, and it will promote America's prosperity.

In conclusion, the administration's goal is national competitiveness in the truest sense of the words: rising living standards along with the ability to compete. Government can play a role in supporting national competitiveness. The government can do this:

- By making room for private sector investment through deficit reduction;
- By working as a partner to shift its spending priorities to sup port the private sector through initiatives such as civilian technology development and worker retraining programs;
- By addressing once and for all the health care crisis that confronts this nation; and
- By fighting to make sure American companies have market opportunities all over the globe.

This is an ambitious agenda, but President Clinton has great energy, great enthusiasm and a great sense of vision. We all enjoy working to achieve this agenda. We hope to work with the citizens of Maine and in states across the nation to restore the American dream to the average American family.

Laura D'Andrea Tyson is chair of the President's Council of Economic Advisers and a member of the President's Cabinet. She is on leave from the University of California at Berkeley, where she was Professor of Economics and Business Administration.

Tyson, Laura D'Andrea. 1993. Three perspectives: The impact of public policy on the competitiveness of Maine's business and industry: The Clinton administration's vision for economic development. Vol. 2(3): 1-6.