

THE BLOG

Mercantilism, Manufacturing, and a Political Problem

05/22/2012 06:01 pm ET | Updated Jul 22, 2012

[Ralph Gomory](#)

Research Prof. NYU, Pres. Emeritus, Alfred P Sloan Foundation, Former IBM SVP Science-Tech

People talk a great deal about free trade. But for better or for worse the real world that we live in is more a mercantilist world than it is a free markets and free trade world. And in this mercantilist world there is a fundamental divergence between the goal of our corporations, which is to maximize profit, and the goal of rebuilding manufacturing here in the United States.

The modern Chinese government wisely exploits the fact that our great American companies take as their main mission in life to make as much money as possible for their shareholders. Companies can maximize profits by taking their technology and know how to China where they receive subsidies, in the form of tax breaks, shared investment, and undervalued currency. These are the factors that in high-tech manufacturing are far more important than lower wages. So our companies manufacture overseas and import the goods they once made in America back into the United States. Our companies do not regard it as part of their mission to take care of the American economy.

In this real world a determined and effective government, like that of China, can make that shift of our production to their country happen on a large scale. That is what has been happening and it continues to happen. And none of this is effectively countered by our standard discussions of the need for better education, more basic research, etc. The inducements offered to our companies are working and our domestic manufacturing is disappearing. What can we do to change that result? We do not have a government experienced in giving out these subsidies or well organized to support chosen companies as national champions. That is not our tradition; rather In the Unites States our traditional government actions have been tax incentives and tariffs.

Tax incentives: We are used to the idea of R&D tax credits for corporations; so why not corporate tax credits for companies that have high value added in the United States? Make the corporate income tax lower, but make it lower in proportion to the productive activity that these companies actually have in the United States, not somewhere else. Use the corporate income tax rate as an incentive to produce here rather than somewhere else.

Tariffs: With our present grossly unbalanced trade we are importing the manufactured goods we once made here and exporting far less value than we import. We are living beyond our means, consuming more value than we create while our manufacturing is withering away in the process. This is not necessary; we can and should balance trade, and U.S. tariffs have a long

history of contributing to that goal in the past.

Almost ten years ago Warren Buffet proposed in Fortune magazine a very good and straightforward way to balance trade he called import certificates. Basically if you export you get certificates for the value of goods you export and these you can sell on an open market. And no-one can import into the U.S. without buying certificates whose face value equals that of the planned import. This automatically balances trade.

So even in a mercantilist world, and even within the limited framework of what we have traditionally done, we could act to incent production here and to balance trade. And there are many other incentives to produce and many other tariff-like actions beyond those just mentioned that could produce those results. Why is it that these actions are not even a significant part of the discussions about how we could end the destruction of our industries and how we could revive manufacturing?

We are not taking the actions we could to revive and strengthen manufacturing because there is no one "we". We, meaning most of the country, would benefit from taking such actions, but there is another "we" that would lose from such a change; the global corporations. But the political power in Washington of the two "we"s is measured more by money and influence than by the number of people who would benefit, and the edge in money and influence is overwhelmingly with the global corporations.

Given the real world we live in, and the current motivation of our great global corporations, it is time to apply to our own situation the immortal words of Pogo: "we have met the enemy and he is us". To solve our manufacturing problem we will first have to face up to our political one.