

Nine Ideas From Around the World to Fix U.S. Economy: Peter Coy
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Commentary by Peter Coy

June 9 (Bloomberg) -- Democrats and Republicans are dug in like soldiers at Verdun over what to do about the sputtering U.S. economy. Exhausted by the political stalemate, they've been reduced to magical thinking, hoping that things will eventually get better by themselves.

But time isn't on America's side. The country is suffering its highest average duration of unemployment since at least 1948.

"The longer this goes on, the greater the danger that the cyclical downturn becomes structural," says Karen Ward, senior global economist at HSBC Holdings Plc in London. "People and things that lie idle start to lose their productive value. Then you're into all sorts of troubles."

It may finally be time for Americans to consider ideas from a place that they don't usually look to for inspiration: the rest of the planet. The U.S.'s economic predicament does present some unique dilemmas. The Obama Administration has already pushed hard on the levers countries usually use to get out of a slump, to little discernible effect. Short-term interest rates are near zero and fiscal stimulus is aggressive, judging from a budget deficit of about 10 percent of gross domestic product.

"We're basically in uncharted territory," says David Rosenberg, chief economist at Gluskin Sheff & Associates, a Toronto-based wealth-management firm.

Maybe so. But there are guideposts that can help point the way out. The U.S., after all, isn't the first country to wrestle with how to restart growth despite budget deficits that constrain big-spending solutions. The challenge is how to apply lessons from other countries to shore up American weaknesses, without sacrificing the strengths that make the U.S., for all its troubles, the world's biggest economy.

To prod the conversation forward, Bloomberg Businessweek scanned the world and found innovative economic ideas in countries as diverse as Germany, Brazil, Singapore and Thailand that are applicable to America's mess. The focus was on short-term solutions, but since there aren't a whole lot of miracle fixes to be had, we also considered some longer-term reforms that create a better environment for years of sustainable growth.

There's no guarantee that all of these ideas would work in an American context. But it's clear that some fresh, non-ideological thinking is needed.

"People in the U.S. confuse big government and small government as the only two models -- what we need is smart government," says Dow Chemical Co. Chief Executive Officer Andrew N. Liveris, a Greek-Australian-American and author of the book "Make It in America: The Case for Re-Inventing the Economy."

By smarter government, he means government that puts business objectives ahead of politics. "Countries are competing like companies more and more," says Liveris. "In the U.S., we haven't caught up."

Here are nine ideas from the rest of the world to get America back in the race.

From: Germany

Idea: Minimize Mortgages

Germany has one of the lowest homeownership rates among wealthy nations -- around 46 percent, versus two-thirds in the U.S. -- and also one of the most stable housing markets. Prices of owner-occupied housing in Germany are up 9 percent since 2003, according to the Association of German Pfandbrief Banks.

What's the German formula? Housing is less vulnerable to booms and busts because only highly qualified buyers can get a mortgage. Down payments are usually at least 20 percent, often 40 percent. Mortgage interest isn't tax deductible, as it is in the U.S., which also discourages excessive leverage.

Germans are justly proud of their Pfandbrief, an ultrasafe bond whose collateral is a set of standardized mortgages whose loan-to-value ratio can't exceed 60 percent. The bank that sells a mortgage-backed Pfandbrief to investors retains all the risk of default, giving it the incentive to underwrite cautiously.

The lesson for the U.S.? Tougher lending rules would help lower the risk of another housing crash. And in the long run, Americans may have to accept a lower homeownership rate to pay for taking the boom and bust out of the market.

From: Turkey

Idea: Open the Doors

Is America still a land of opportunity for foreign investors? By some measures, yes. Foreign direct investment in U.S. companies, factories, mines and land was almost \$200 billion in 2010, above its average for the preceding decade. Yet compared with Turkey, the U.S. looks unwelcoming.

Turkey's Investment Support and Promotion Agency serves as a single point of contact for all permits, licenses, and land acquisition. It coordinates specialized training for the workers that multinational companies need and arranges for upfront tax breaks. Its staff can communicate in Arabic, Chinese, English, French, German, Italian, Japanese, Korean, Russian and Spanish, as well as Turkish.

Dow Chemical's Liveris calls the agency a role model.

"Today the U.S. is perceived as a risky place to do business by foreign companies," he says. Dow recently announced a joint venture with a Turkish company to make carbon fiber and derivatives for use in wind turbines and the like.

A Turkey-style mix of tax incentives, language and job-training services, and legal assistance, might persuade more foreign firms to invest in the U.S., creating jobs.

From: Brazil

Idea: Pay the Poor

On June 2, President Dilma Rousseff announced a plan called Brasil Sem Miséria, or Brazil Without Poverty, that aims to lift

16 million people out of extreme poverty, defined as household income of \$45 or less per month. The plan calls for providing the poor with job training, legal documentation, electricity, literacy, medical treatment, day care and sanitation. Even garbage pickers are covered: The program aims to integrate them into municipalities' recyclable collection.

America's poor are rich compared with Brazil's, but growing income inequality poses dangers to the U.S.'s economic health.

"Some poor people are so far behind that they can't open the doors" to opportunity, says Brazilian Executive Secretary for Social Development Rômulo Paes, a physician with a PhD in epidemiology.

Improving coordination of anti-poverty policies would help more low-income Americans get back on their feet and give a boost to the recovery.

From: Canada

Idea: A Worthwhile Tax

With the 2012 U.S. presidential election looming, the idea of springing any new taxes on the American public verges on heresy. But digging out of our fiscal hole will require the government to find ways to increase tax revenue one way or the other.

For a start, look north. Unlike the U.S., Canada has a national sales tax -- the Goods and Services Tax, currently levied at 5 percent. Consumption taxes such as these are less harmful than a tax on wages and salaries, which discourages work, or a tax on investment, which discourages saving.

Livio Di Matteo, an economist at Lakehead University in Thunder Bay, Ontario, believes the U.S. could go a long way toward solving its budget problems with a national sales tax and a fatter gasoline tax. "The U.S. is a rich country," he says, "and its deficit situation is more a political rather than economic problem."

Consumption taxes might be one "worthwhile Canadian initiative" that's worth a closer look.

From: China

Idea: Go Green

Looking to China for economic lessons is a fraught proposition. China's authoritarian system allows the central government to play a role unimaginable in the U.S. Borrowing selectively from Beijing's playbook, however, can help revitalize American industry.

China's 12th Five-Year Plan commits the country to world leadership in seven leading-edge industries, many of them connected to clean energy and the environment. An article released by the official Xinhua News Agency cited unnamed analysts' estimates that investment in environmental protection alone will exceed 3 trillion yuan (\$463 billion) from 2011 to 2015.

By contrast, government-funded research and development in the U.S. is heavily tilted toward the National Institutes of Health. Innovations in the health sector may extend lives, but they could, perversely, increase health-care costs by

producing costly new drugs and devices, while delivering a smaller commercial payoff than the green industries on which China is focusing.

From: Singapore

Idea: Keep Workers Working

The famously efficient city-state was uniquely vulnerable to the worldwide economic downturn because it depends on global trade, which dropped off sharply. Yet Singapore's unemployment rate topped out in 2009 at just 3.3 percent. One factor was the Jobs Credit program, which pays employers to keep people on the payroll until demand revives. Other countries with similar programs include Belgium, Finland, Germany, and Japan.

That's not all Singapore does. Its Skills Programme for Upgrading and Resilience, known as SPUR, pays companies to train workers while they are idle instead of laying them off. Some workers are trained for jobs in fields their employer isn't even in. The government guides entire industries toward the future it envisions for them, says G. Jayakrishnan, Americas group director in New York for International Enterprise Singapore, a trade promotion agency.

Such a paternalistic government role would be tough for American companies to stomach. Yet in Singapore, says Jayakrishnan, "it really puts the country and the economy on the right side of things when the economy begins to pick up."

From: Thailand

Idea: Cheap Rooms!

To get its economy going again in 2009, Thailand doubled the tax deduction for domestic hotel stays as a way to encourage people to get out and spend money. It was only a small part of Thailand's recovery package, but it caught people's attention.

In an e-mail, Thai Finance Minister Korn Chatikavanij says, "These measures helped with morale and 'bought time' for us to do 2 things: 1) employ the main stimulus measures which were investment-based and, 2) wait for export demand to pick up thru global recovery, which they did."

The U.S. has already resorted to similar gimmicks to goose demand: The 2009 stimulus package included, among other things, tax breaks for purchases of recreational vehicles, or RVs. But the slow recovery suggests that American consumers need more incentives to spend.

From: Australia

Idea: Give the Kids a Break

Beginning July 1, Australian pensioners will get improved "work bonuses" to find part-time jobs or stay longer in the workforce. Matthew Weinzierl, an economist at Harvard Business School, likes Australia's idea of varying tax rates by age, but he'd do it differently: Have tax rates rise steadily from age 25 to age 55. By paying lower taxes when they're young and more when they reach middle age, Americans would essentially borrow from their older, richer selves.

Weinzierl didn't focus on the older workers targeted by Australia because he didn't want to complicate the analysis with retirement decisions. The economist

estimates that varying income-tax rates by age would generate social-welfare gains equaling 0.6 percent to 1.5 percent of annual U.S. consumption. That's in the range of \$100 billion a year.

A more efficient tax code would also encourage people to work more, generating wealth. But Weinzierl cautions that age-based tax rates won't end the slump: The big problem now is there's not enough work to be done.

From: Israel

Idea: Swords Into Software

The U.S. is by far the world's largest spender on the military and intelligence. But the Pentagon could learn something from Israel about how to convert defense dollars into commercial products that can benefit the broader economy.

Veterans of a single unit of the Israeli Defense Forces' Intelligence Corps have launched such successful ventures as Check Point Software Technologies, the network security software company; ICQ, the pioneer of instant messaging; and NICE Systems, which detects fraud. The secretive operation, called Unit 8200, serves as the corps's technology intelligence unit.

Ido Aharoni, Israel's consul general in New York, says the closest thing America has is DARPA, the Defense Advanced Research Projects Agency. But no one in the Pentagon is responsible for getting commercial bang for military bucks. That makes it fertile ground for improvement.

(Peter Coy's column will appear in Bloomberg Businessweek's June 13 issue. The opinions expressed are his own.)