Special report:
America's competitiveness

The economy

Cheer up

Political gridlock may be bad for America’s economy, says Edward McBride, but the underlying growth prospects are much brighter than they seem

Mar 16th 2013 | From the print edition

IT IS 2030, and a Chinese university lecturer is explaining how a decadent America went the way of the British and Roman empires. Ruinous economic policies led to crippling debt, much of it owned by China. “Now they work for us,” he says with a smirk, to prolonged sniggers from his students.

This depiction of the future comes from a television advertisement attacking Barack Obama’s policies during America’s election campaign last year. Mr Obama himself seems haunted by similar fears. He often gives warning that China and other developing countries are beating America in the race for “the jobs of the future”. He ran for president, he once said, to stop America “becoming less competitive internationally”.

The belief that America is losing its economic edge is pervasive. Americans are more pessimistic about their country’s prospects than at any point since Gallup, a polling firm, first started asking them in 1959. The grandees of Washington, DC, share their concern. Almost any weekday morning at one of the city’s many think-tanks a packed audience of academics, journalists and government officials can be found, paper cups of coffee in hand and muffins balanced on knees, agonising over the country’s waning competitiveness. The recession may gradually be receding, the worry goes, but long-ignored impediments to growth will hobble the recovery and prevent future generations from achieving the American dream.

Outsiders are anxious too. The World Economic Forum, which draws up international rankings on competitiveness, considers the United States only the world’s seventh-fittest economy, a big slide from first place just four years ago. It faults America’s infrastructure (14th out of the 144 countries it
assesses), its primary education and health care (34th), its institutions (41st) and above all its macroeconomic environment (111th, mainly because of the ballooning public debt). The only category in which the country still ranks first is market size, a slot it is destined to lose to China sooner or later.

The misgivings are easy to understand. Growth is sluggish, unemployment is high and investors are wary. America’s public debt is approaching $17 trillion, more than 100% of GDP, and it has been growing fast. Much of this stems from the transitory effects of the recession, but it will get worse rather then better. On the current trajectory, the soaring costs of Medicare and Medicaid, the government’s health-care schemes for the old and the poor respectively, along with Social Security, the state pension scheme, will consume all federal revenues within a generation, leaving nothing for anything else.

America’s politicians have been feckless in the face of this impending disaster. All the bickering over budgets of the past two years has done little to diminish this soon-to-be-crushing burden. Whenever either party suggests trimming “entitlements”, the other immediately accuses it of betraying the poor or the elderly. Republicans and Democrats are so much at odds that decisions are only ever made at the 11th hour, or the 13th, and in an ill-considered and piecemeal fashion. Words like “shutdown” and “default” have become part of Washington’s everyday language.

The combination of dysfunctional politics and empty coffers is preventing Congress from dealing with the economy’s obvious shortcomings

The combination of dysfunctional politics and empty coffers, in turn, is preventing Congress from dealing with the economy’s other obvious shortcomings. The American Society of Civil Engineers gives the country’s infrastructure a grade D. America’s schoolchildren earn equally dismal marks. In the OECD’s most recent PISA rankings, which compare educational attainment in 65 countries, they came 17th in reading, 23rd in science and 31st in maths, behind places like Macau and Slovakia.

Poor schooling feeds into concerns about America’s capacity to innovate. American firms’ research and development (R&D) budgets have grown much faster abroad than at home. A misconceived immigration system is turning away the very people who could help remedy that, by denying visas to talented foreigners. Proliferating red tape is causing tangles everywhere, from the 400 subsidiary regulations of the Dodd-Frank law on the financial sector to the 140,000 codes the federal government requires hospitals to use for the ailments they treat, including one for injuries from being hit by a turtle.

“Is this a country that can still get big things done?” asked the head of the US Chamber of
Commerce, a business lobby, in January. This special report will argue that the answer is yes—but only if you look beyond the paralysis in Washington. To prove it, it will examine the factors which are the source of the most hand-wringing: innovation, energy, education, immigration, infrastructure and regulation. These help determine the number and productivity of America’s workers, and thus how quickly the economy will grow in the long run—the most basic measure of competitiveness. On every count, despite glaring problems, the outlook is less bleak than the pessimists maintain.

Bottom up

That is partly because they overstate their case. For instance, rumours of the death of American innovation are exaggerated: the country is spending as much of its output on R&D as it ever has, and continues to come up with dramatic breakthroughs, such as “fracking” for oil and gas. It still towers over emerging giants like China in crucial matters such as the quality of its research universities and respect for intellectual-property rights. However, the main reason for cheer is that beyond the Beltway no one is waiting for the federal government to fix the economy. At the regional and local level America is already reforming and innovating vigorously.

Local officials are competing viciously to lure migrants and investment. They are using every imaginable enticement, from scrapping income tax to building more bike paths. But they are also embarking on far-reaching reforms. Education, for example, is being turned upside down in the most comprehensive overhaul in living memory. On infrastructure, mayors and governors are grasping the nettle Congress will not, by coming up with new funding mechanisms.

Washington is not completely absent from these changes (Mr Obama has made things easier for immigrants; Congress had a hand in the school reforms). But the overall picture is of revolution from the bottom up, rather than the top down. This has its advantages: the states yet again are proving themselves laboratories for experimentation. Yet its also means that America’s economic fightback is patchy and inconsistent. The United States could become far more competitive far more quickly if Congress punched its weight.

This is a hugely important condition. The political feud in Washington, and the fiscal shenanigans that come with it, constitute the biggest threat to the nation’s prosperity, and the main caveat to the otherwise optimistic assessment outlined in this report. At the start of this month the two sides subjected the country to arbitrary and ill-timed budget cuts, which both admit are foolhardy and which are bound to weigh on the already feeble economy. Moreover, all efforts to boost America’s competitiveness are for naught if the galloping costs of Medicare and Medicaid are not reined
in—something only the federal government can do.

So America’s competitive recovery is not as strong as it should be, and it will remain overshadowed by its shaky public finances. But it is real. What is unfolding around the country offers a template for reform at the national level. And for all the histrionic talk of cliffs, brinks and shutdowns, the politicians in Washington have not inflicted any crippling damage yet. Those who like to lecture smugly about America’s impending decline should take a closer look.

From the print edition: Special report
IT IS NOT much to look at: an anonymous suburban office building, wedged between a shopping mall and a car dealership. Yet the Defence Advanced Research Projects Agency, or DARPA, has had a hand in many of the most celebrated technologies of the age, from the internet to global positioning systems to radar-foiling stealth aircraft. Its boss, Arati Prabhakar, jokes about having invented fire.

DARPA remains gamely engaged in research that to outsiders sounds like science fiction. Its Living Foundries programme, for example, is trying to work out how to use microbes to detect and repair worn or corroded materials. Blood Pharming aims to create a kit to grow blood from a culture for battlefield transfusions. ChemBots is investigating robots that can change their shape to squeeze through small openings and then reconstitute themselves on the other side.

America puts more into R&D than any other country, and agencies like DARPA are in the vanguard. Yet by the National Science Foundation’s latest count, in 2009, the country’s share of global spending on R&D had fallen to 31%, from 38% in 1999. As a share of GDP its expenditure now ranks only ninth in the world, at almost 2.9%. Investment in research even fell slightly in absolute terms for a couple of years during the recession, whereas in other countries it continued to grow quickly. China’s outlays, for instance, raced ahead by 20% a year in the decade to 2009.

Robert Atkinson of the Information Technology and Innovation Foundation (ITIF), a think-tank, is troubled by a number of related trends. America’s tax credit for R&D is relatively stingy, he notes, offsetting just 6% of the amount companies invest, compared with 14% in China and 29% in Denmark. America’s share of the scientific papers published in prominent journals, although still bigger than that of any other country, slid to 29% in 2008, from 40% in 1980. Not quite 42% of Americans have a university degree, which puts the country in tenth place globally, 16 percentage points behind the leader, South Korea. Venture-capital investments as a share of output are only
half those in Finland or Singapore.

Even by the composite measure that ITIF compiles on the basis of such statistics, however, America remains the world’s fourth most nurturing spot for innovation (though in 2000 it still came first). The countries that do better—Singapore, Finland and Sweden—are relative tiddlers. Rising economic powers such as Brazil, China and India remain near the bottom of the list.

Moreover, America has dropped in the ranking not because it is conducting less research but because other countries are doing so much more. And innovation is not a zero-sum game. Foreign ideas help to stimulate American ones, foreign inventions can boost American productivity and growth in foreign markets provides opportunities for American firms.

Still stellar

In absolute terms, America’s investment in research and development has in fact grown rapidly. Even after the slight dip of 2009 it remained 25% bigger than it had been in 2004 (see chart 2). Over those five years it grew at a faster rate (5.8% a year) than the economy as a whole (3.3%) As a share of GDP it is only a whisker below the peak reached in 1964, of 2.9%.

The number of patents issued to Americans is growing too, and is also near its historic peak relative to the population, according to a new study from the Brookings Institution, a think-tank. Issuance has been rising steadily since the late 1980s. Moreover, the recent crop appears to be of relatively high quality, judging by how often they are cited and claims on them are made. Roughly half of all patents issued in America are awarded to foreigners, but those granted to Americans, the Brookings study finds, are getting many more claims and citations.

By other measures, too, America still enjoys an enviable position in the world of ideas. For one thing, it is remarkably receptive to new ones. Several states, for example, have already drawn up regulations governing the use of the driverless cars on which DARPA is working, even though they are still several years from the dealerships. Even the Cassandras about America’s prospects concede that its universities remain the finest in the world. Twenty-seven of the 30 universities that produce the research most frequently cited in academic journals are American, according to an analysis conducted at the Netherlands’ Leiden University. America also has more scientific researchers than ever before, says the National Science Foundation.

But how productive are all those boffins? These days it seems to take more of them, and cost more, to produce a single patent than it did a few decades ago. And government cash is likely to be harder to come by in the future. Funding for DARPA and other public research agencies, such as the
National Institutes of Health and the Department of Energy’s National Laboratories, comes from the “discretionary” portion of the budget, meaning the part that Congress is most likely to cut. Most of these outfits received some extra money as part of the stimulus during Mr Obama’s first term, but that has now dried up.

Since the government is responsible for only 31% of America’s R&D, that may not seem too serious. But it pays for over half of America’s basic research—the most ambitious, ground-breaking sort, such as DARPA’s melting and congealing robots. Businesses, by contrast, tend to concentrate less on the “R” than on the “D”. According to Brookings, government-funded research tends to produce patents of higher quality than that undertaken by business.

A mixture of government-funded basic research, built on and deployed by business, lies behind two of the innovations that are doing most to help America out of its current economic doldrums: hydraulic fracturing (fracking) and horizontal drilling. The first involves injecting a mix of sand, water and chemicals into oil- and gas-bearing rocks to allow the hydrocarbons to escape. The second makes it much easier to get at thin layers of deposits and allows multiple wells to be drilled from a single site. Sporadic research into both had been conducted under the auspices of the Department of Energy since the 1970s, but they were perfected only in the 1990s when the private sector took them up. They are now giving a massive boost to the oil and gas industry—and hence to the broader economy.

From the print edition: Special report
When Ken Alexander started working at the J&L steel mill in Aliquippa, Pennsylvania, in the 1970s, he was one of 17,000 workers. But the workforce quickly declined as the American steel industry withered in the face of cheaper foreign competition. In 1984 J&L shut the mill. Four years ago another mill where Mr Alexander had found a job, across the Ohio river in Ambridge, also stopped work because of the recession. He was one of a skeleton staff of 20 kept on as watchmen.

Derelict mills pepper the region, loose sidings flapping in the frigid Appalachian wind. The once celebrated steel industry around Pittsburgh (whose football team is called the Steelers) survived a series of crises over the years, notes Mr Alexander, but was further diminished by each of them—until now. These days the Ambridge mill, bought by a Russian conglomerate five years ago, is humming away. Its 400 workers transform solid steel bars produced at another mill nearby into seamless pipes, in demand by oil drillers, among others.
management is taking advantage of a seasonal lull in demand to straighten out kinks in the line and thus increase its capacity.

Other firms are making much bigger bets on the local steel industry. Fifty miles to the north-west, in Youngstown, Ohio, a French firm, Vallourec, has spent $650m building an entirely new mill to make similar pipes. It began production in October, with a staff of 350. Thirty miles in the opposite direction, in Brackenridge, Pennsylvania, Allegheny Technologies is spending $1.1 billion on a new mill to produce stainless steel and other specialty metals. US Steel opened a new $100m mill in Ohio in 2011, also to supply the oil and gas industry. Timken, another steelmaker, is spending $200m on its mill in Canton, Ohio.

The main reason for this flurry of investment lies a few thousand feet below the ground: the Marcellus shale, a geological formation containing huge reserves of natural gas trapped in tiny pores in the rock. It is thought to be America’s biggest gas field, stretching 600 miles along the Appalachians, from New York to West Virginia., but has only recently begun to be tapped, thanks to fracking and directional drilling.

Last year the government of Pennsylvania alone issued permits for 2,484 such “unconventional” wells; 1,365 of them were actually drilled. Wells in the Pennsylvanian part of the Marcellus produced 895 billion cubic feet (bcf) of gas in the first half of 2012, up from 435bcf in the same period in 2011 and almost nothing as recently as 2008.

Well lubricated

Driving through the south-western corner of the state, the benefits of this “shale gale” are easy to see. New roofs, fences, barns and tractors have sprouted on many local farms; plenty of shiny new pick-up trucks ply the roads. By one estimate, Pennsylvanians who allow drilling on their land earned some $1.2 billion in royalties last year. Suburban office parks are proliferating outside Pittsburgh, the biggest city in the area, with space being snapped up by oil firms, their suppliers and subcontractors, lawyers and environmental consultants. Even the most basic restaurants are overflowing at lunchtime, a local complains.

All told, the Marcellus already supports over 100,000 jobs in Pennsylvania, according to an analysis by IHS, a research firm. That figure is expected to rise to over 220,000 in 2020. Shale gas gave the local economy a $14 billion boost last year, IHS reckons, and will buoy it by almost $27 billion in 2020. All the extra economic activity generated nearly $3 billion in taxes, it calculates. A new “fee” (the Republican word for tax) on gas production adopted by the state legislature last year should help raise yet more in future.

Pennsylvania is just one of several states enjoying a shale-gas boom. Arkansas, Louisiana, Oklahoma and Texas have all seen similar rushes. Shale-gas production in the United States as a whole rose more than fourfold between 2007 and 2010, says the Department of Energy. That has helped push
up its gas output by 20% over the past five years, making the country the world’s biggest gas producer. BP, a big oil and gas firm, forecasts that North American shale-gas output, largely from the United States, will grow by an average of 5.3% a year until 2030.

America is already producing so much shale gas that local gas prices have plummeted, from over $13 per million British thermal units (mmBTU) in 2008 to $1-2 last year. They have since recovered slightly (see chart 3), but America still enjoys remarkably cheap gas by international standards. In 2011 it had the second-lowest gas prices for industry among rich countries, after Canada, according to the International Energy Agency (IEA). American factories paid a third of the German gas price and a quarter of the South Korean one, the agency reckons—and prices have fallen further since.

Cheap gas is also translating into cheap electricity, since America’s marginal power supplies tend to come from gas-fired plants. In 2011, according to the IEA, American factories paid roughly half the going rate for electricity in Chile or Mexico and a quarter of the eye-watering Italian price. In New York last year prices were the lowest they have ever been since the state introduced a competitive wholesale market in 1999.

Investors, naturally enough, are keen to take advantage of such bargain prices. They have been pouring money not only into steelmaking but all manner of energy-intensive industries, from plastics to fertilisers. Just up the Ohio from Ambridge, Shell is contemplating building a multi-billion-dollar “cracker” to turn the ethane that emerges with much of the gas from the Marcellus into ethylene, a feedstock for plastics.

On the Gulf coast (another gas hub), Chevron Phillips, Dow Chemical, Formosa Plastics, Occidental Petroleum and Williams are all expanding existing chemical plants or building new ones. A chemical firm called Methanex is dismantling one of its factories in Chile and shipping it to Louisiana to take advantage of low gas prices. CF Industries is expanding its local fertiliser production. Nucor, a steel firm, is building a new mill. Sasol of South Africa hopes to build a refinery in Louisiana to turn gas into petrol. Several firms want to construct facilities in the region to liquefy gas and export it—a dramatic reversal from a few years ago, when the need was thought to be for import terminals.

America’s big pipeline network creates a relatively liquid and fungible national market for gas, so customers far from any shale beds are still able to take advantage of low gas and chemicals prices. Orascom, an Egyptian conglomerate, plans to build a $1.4 billion fertiliser factory in Iowa. Bridgestone, Continental and Michelin are all planning to make more tyres in South Carolina, reversing a long decline.

Better still, the steep drop in the price of natural gas has driven America’s drillers to hunt for oil
instead. Rigs are migrating from gassy places like the Haynesville Shale, in Louisiana, to spots
where oil is trapped in tiny rock pores, such as the Permian Basin and Eagle Ford Shale in Texas, the
Bakken formation of North Dakota and the Mississippian Lime, which sits astride the border
between Oklahoma and Kansas. Applying the same techniques to such “tight oil” as to gas-laden
shales, they have managed to increase America’s oil production by a third over the past four years,
to 7m b/d. The government expects it to grow by more than 1m b/d over the next two years. The
output of the Bakken Shale alone has risen from 100,000 b/d in 2008 to over 700,000 now. By the
end of this year, BP predicts, America will overtake Russia and Saudi Arabia to become the world’s
biggest producer of liquid fuel, meaning oil and biofuels.

The newfound oil brings just as much of a bonanza to the places where it is extracted as the shale
gas does. Flights to previously obscure airports in North Dakota—Dickinson, Minot and
Williston—are full, as are all hotels within striking distance of the Bakken. Property prices have shot
up. The oil industry now accounts for 15% of the local economy, according to IHS, and has brought
72,000 jobs to a state with fewer than 700,000 people.

Despite its huge local impact, America’s shale-oil boom has pushed up global oil production by just
a percentage point or two, not enough to reduce the price much. However, it has resulted in a big
drop in America’s import bill. IHS calculates that unconventional oil reduced the trade deficit in
2012 by $70 billion, or about 10%.

All told, says IHS, unconventional oil and gas accounted for $238 billion in economic activity, 1.7m
jobs and $62 billion in taxes in 2012. That includes the exploration and extraction itself, the supply
chains they rely on and the extra spending by all those newly employed oilmen. But it leaves out the
second-order effects of cheaper gas, electricity and chemicals. Last year the American Chemistry
Council, an industry group, forecast that over the next couple of years cheap gas would spur some
$72 billion in new investments in eight gas-hungry industries alone. That, in turn, would lead to a
further $342 billion in new economic activity in 2015-20, along with the creation of 1.2m new jobs.
The different levels of government, for their part, would rake in an extra $26 billion a year in new
taxes.

An outsized bonus

In principle, all American companies and consumers benefit from lower energy prices. The effect
may not always be big enough to spur heavy new investment, but it might be sufficient to keep
American factories with high labour costs going in the face of foreign competition.

Economists at Citigroup and UBS predict that the shale gale will lift America’s GDP growth by half a
percentage point a year for the next few years. Indeed, cheap energy is cited as one factor by those
who predict a manufacturing renaissance in America. Labour in China is getting more expensive,
the argument runs, and so is shipping Chinese-made goods across the Pacific. At the same time ever
shorter product cycles confer an advantage on factories located close to the people who consume
their goods. Quality is easier to maintain and intellectual property easier to protect if the head office is not far away. Throw in lower bills for power or petrochemicals, and bringing work back home begins to look attractive.

For the moment America’s manufacturing output remains below its 2007 level, and its trade deficit with China is still growing. But some high-profile examples have caught the headlines. GE has moved the production of some white goods from China and Mexico to Kentucky, and Lenovo, the Chinese firm that bought IBM’s personal-computer business, plans to return some manufacturing to North Carolina. In the long run, however, America will not be able to lure and retain investors like these without a better-educated workforce.

**Correction**: The original version of this article stated that the steel mill in Ambridge was bought by a Russian conglomerate six years ago. In fact, it was five. This was corrected on March 21st 2013.

From the print edition: Special report
“THIS BUSINESS”, SAYS John Demby, the principal (headmaster) of Sussex Tech, a high school in Delaware, “has changed dramatically in a very short period.” This year, like all principals in the state, he is evaluating teachers under a new system for the first time. The state is also adopting a new curriculum for English and maths, the “common core”. That will require changes to the state’s regular computerised tests for students, themselves only three years old. On top of all that, Sussex Tech is launching a scheme to allow students to start accumulating college credits while still in high school. And it is overhauling the vocational training it offers in order to serve local businesses better and to provide students with more useful qualifications.

It is not just Sussex Tech; all Delaware’s schools are undergoing a similar upheaval, thanks to a series of reforms championed by Jack Markell, Delaware’s governor. He has made education reform a centrepiece of his tenure because he sees it as critical to the state’s competitiveness. (It is the states that regulate education in America, although the federal government often tries to bribe them to adopt its pet policies.)

Mr Markell is especially proud of the 100 children at the McIlvaine Early Childhood Centre, a kindergarten in the hamlet of Magnolia, who are being taught exclusively in Mandarin for half of each day. Beneath gaudy paper dragons the five-year-olds adopt poses that mimic the Chinese
characters for the numbers one to ten. Barely three months into the school year all of them were able to count to 100 in both English and Chinese, way ahead of curriculum requirements, says the principal.

Mr Markell plans to expand immersion classes like these from 340 to 1,000 students next year and hopes to reach 10,000 in a decade. But he is also enthusiastic about more workaday schemes, including one which aims to increase the quality of pre-schools that take in poor children on state subsidies, so that they will be up to speed when they start school.

On your marks

Since he took office in 2009, Mr Markell has campaigned to overhaul most aspects of education in the state, paying particular attention to raising standards for both children and teachers, especially in the worst schools. Those also happen to be the main targets of Mr Obama’s biggest initiative in education, Race to the Top (RTT), which awards grants on a competitive basis to states and school districts that present the best plans for such improvements. Delaware was the first state, along with Tennessee, to win a Race to the Top grant, in 2010.

Nineteen states have now received RTT grants, and all but four have applied for them. Along the way they have undertaken, among other things, to conduct more rigorous evaluations of both students and teachers, to make better use of the resulting data and to foster charter schools, meaning state-funded schools that operate independently of local school districts. The federal government is also encouraging the adoption of the common core, developed by a group of state governments to deal with inconsistencies and lax standards in their individual curriculums.

All this comes on the heels of the previous federal education reform, No Child Left Behind, which required schools to show big improvements in students’ test scores. In fact the targets were so demanding that 34 states have had to ask the Obama administration to waive them. It has done so, but only on condition that they follow RTT-like policies.

The result has been a dramatic acceleration of reforms in America’s public schools, at least on paper. All but five of the 50 states have adopted the common core. All but eight now allow charter schools (see chart 4). Thanks to No Child Left Behind, they all now track and publish the performance of individual schools and intervene at the feeblest ones. Most states also have some sort of evaluation system for teachers.

Many states have gone beyond the changes demanded by the federal government. Seventeen now offer vouchers for use in private schools to some students or give tax breaks to people who donate to scholarship funds. Thirty-eight are experimenting with new pay structures for teachers or principals, often with a performance-related element. Thirty-seven had applied for RTT-like grants to boost attendance at and quality of pre-schools, even before Mr Obama announced a push to improve and expand early-childhood education last month. From nurseries to technical colleges, in
short, America is subjecting its schools to a vigorous shake-up.

How effective all these changes will be is not yet clear. In Delaware Mr Markell points to last year’s double-digit increases in the proportion of students rated “proficient” in reading and maths in statewide tests. But only nationwide tests, due to be conducted later this year, will provide a comparative measure of the state’s progress.

The proof of the pudding

Equally, it is far too early to tell whether all the tumult in education policy will lift America up in the international rankings. But its supposedly dire performance in these comparative tests needs qualifying anyway. The results of the two most widely cited ones, PISA and TIMSS, are inconsistent. TIMSS, which is put together by an international consortium of research institutes, puts America in or near the top ten in maths and science, with Russia among the countries that consistently beats it. PISA, compiled by the OECD, puts America much lower down but still well ahead of Russia. Neither has been around for very long (12 years for PISA, 18 for TIMMS), and although America has never been rated especially highly, by and large its scores are improving. Moreover, certain states, most notably Massachusetts, perform far better than the national average.

Most academic research suggests that the education reforms of recent years have produced only small, if any, improvements in students’ test scores. So far the effects of introducing charter schools, vouchers and tougher standards for schools, teachers and students have been underwhelming, says Bill Evers, a former assistant secretary of education. It does not help that teachers’ unions dislike charter schools and vouchers and are suspicious of RTT’s enthusiasm for “value-added modelling”, which involves predicting a student’s future test scores from his past results and then measuring a teacher’s effectiveness by the divergence between prediction and actual performance. Naturally enough, teachers are all the more reluctant if their pay is to be tied to the assessments.

Such misgivings can be alleviated, however. Delaware has painstakingly developed teacher-
evaluation systems for everything from art to repairing cars, and spent most of its RTT grant on training teachers to cope with all the upheaval. Mr Demby, the Sussex Tech principal, has been provided with no fewer than three different coaches: to teach him how to conduct the new evaluations, to use a new data system tracking student achievement and (no wonder) to manage his time efficiently. Mr Markell, in his “State of the state” address this year, proposed raising teachers’ starting salaries and paying bonuses to “teacher leaders”. The federal Department of Education gave Delaware’s RTT application extra marks because it had the support of the local teachers’ unions.

Vicki Phillips of the Bill & Melinda Gates Foundation, a charity that spends hundreds of millions of dollars a year trying to improve education in America, points out that the broad principles of reform are now largely accepted. The drive for more rigorous and consistent teacher evaluation has come from a Democratic administration, despite the party’s ties with the trade unions. The unions themselves generally do not dispute the need for higher standards and greater accountability, but quibble with the speed and detail of the measures.

A similar consensus has emerged on the reforms to improve vocational training. In spite of the high unemployment rate, many businesses complain that they cannot find enough qualified candidates to fill their vacancies. A survey conducted last year by McKinsey, a consultancy, found that 87% of educational institutions thought they had prepared their students well for employment, but only 49% of employers agreed that their new employees had the training they needed. A similar survey of American manufacturing firms in 2011 by Deloitte, another consultancy, found that 67% had trouble finding the right people, and that 5% of their jobs remained unfilled for lack of suitable applicants. BCG, yet another consultancy, downplays the current “skills gap” but nonetheless estimates that by 2020 America will be short of some 875,000 machinists, welders, industrial mechanics and the like.

Mr Obama pledged, as part of his re-election campaign, to put an extra 2m people through community colleges, which offer two-year associate’s degrees and technical qualifications rather than bachelor’s degrees, which typically take four years. To make sure they learn the right skills, he has advocated close partnerships between these colleges and local businesses and suggested steering more money to colleges or teachers whose students find work. Last year he included a request for $8 billion to pay for all this in his proposed budget, but Congress demurred. Even without its help, however, community colleges around the country are embarking on these sorts of reforms. Last year 24 states adopted laws intended to increase access to technical education or align it better to the needs of local businesses.

Cheryl Hyman, the boss of Chicago’s network of community colleges, is only too aware of the pitfalls of poor training. In the 1980s she spent three months studying for an IT qualification that cost her $3,500 in tuition fees and turned out to be useless. To ensure that none of the 120,000 students in Chicago’s city colleges suffers a similar fate, she is working with Mr Emanuel, the mayor, on a programme called College to Careers.
First, the city consulted local companies and economists to find out what qualifications were in demand now or would be in the future. It then enlisted businesses—84 so far—both to help shape the curriculum in those fields and to give students opportunities for work experience. This arrangement is good for both parties, says Larry Goodman, the CEO of Rush University Medical Centre, a local hospital. Employers can be sure of a steady stream of qualified job candidates and can see them at work before making any hiring decisions. Students, for their part, gain practical experience and can be sure that they are learning marketable skills.

Ms Hyman is also trying to make sure that the training the city colleges offer is “stackable”, allowing students to gain qualifications without wasting time and money going over the same ground twice. For example, local universities have agreed that they will accept a sequence of increasingly advanced nursing certificates earned at the college to replace the first two years of a four-year nursing degree.

Pile them high, get them cheap

All this allows students to rack up qualifications faster and more cheaply. That, in turn, makes them less likely to drop out and helps them pay for further studies. Many places, including Chicago and Delaware, are encouraging (and paying for) dual enrolment in high school and community colleges or universities, in order to shift more people into this virtual cycle earlier in life. Kansas is going even further, paying a “bounty” to high schools for each student who earns a technical qualification.

At Sussex Tech students will soon be able to earn enough credits for half a bachelor’s degree from a local university, at no extra cost, saving them tens of thousands of dollars in tuition fees. As it is, they can get a certification in dental radiology as juniors, for example, and then qualify as dental assistants as seniors—and this is just one of 15 technical subjects in which the schools offers qualifications. In a mock dentist’s practice a mop-haired teenager leans over a classmate’s open jaw, muttering something about “adjusting the rheostat”. A poster behind him gives details of orthodontists’ pay scales. Mr Demby looks on with pride. “As schools,” he says, “we have to create a smarter product to be competitive.”

From the print edition: Special report
In January, with less than a day’s notice, the mayor of Miami-Dade ordered the closure of the westbound lanes of Bear Cut Bridge, creating a disastrous bottleneck on the only route between downtown Miami and the posh island suburb of Key Biscayne. Engineers from Florida’s Department of Transportation (FDOT) had inspected the bridge last June and deemed it in need of repair but sound enough to remain in use for the time being. But by the time of the next inspection, in December, the corrosion of the steel girders supporting the bridge had accelerated alarmingly, rendering it unsafe. Local drivers now face a year of delays and taxpayers an unexpected repair bill.

In a damp, salty place like Florida, explains Andrea Sanchez, steel and concrete can decay extremely quickly. She should know: while pursuing a doctorate in civil engineering at the University of South Florida she is working on a project funded by FDOT to model the lifespan of reinforced concrete in bridges exposed to sea air. With luck, her work will keep Florida’s drivers safer and more punctual and the state’s coffers fuller. But she will probably not be around to see the results.

Ms Sanchez is Venezuelan, living in America on a student visa. She would like to stay on after she completes her doctorate next year, but will have to leave unless she can find a firm that is willing to put up with the hassle and expense of obtaining a new visa for her. So far, she has found that
difficult. At job fairs, as soon as she explains that she is not a citizen or permanent resident, most companies lose interest.

That is understandable. To employ a foreigner, even on a temporary basis, a firm must file paperwork with the Department of Labour certifying that no American workers are being displaced and that a market wage will be paid (to avoid depressing Americans’ earnings). Once that is approved, the prospective employer must submit evidence of the applicant’s qualifications to the Department of Homeland Security, along with $1,575-5,550 in fees, depending on the size of the company and the urgency of the application. Everything is then passed on to the State Department, which interviews the applicant and checks the other bureaucrats’ handiwork.

Even for companies willing to jump through all these hoops, visas may not be available, as Congress has put a limit on the number that can be issued each year. All 85,000 short-term visas for skilled foreign workers (H-1Bs, in bureaucratese) on offer this year were snapped up within ten weeks. That was a lot better than in April 2007, when the limit was reached in less than a day. Even in the depths of the downturn the quota was always fully used. Indeed, demand has exceeded supply every year since 2003, when Congress slashed the number of visas on offer by two-thirds.

Like gold dust

Workers seeking a residence permit, or “green card”, which allows an indefinite stay and opens up the prospect of eventual citizenship, have an even tougher time. Over 1m green cards are issued each year, but the bulk of them—65% in 2011—go to relatives of existing citizens and residents. Refugees and asylum-seekers receive another 16%. The number of green cards tied to employment and investment is limited to 140,000 a year, or roughly 13% of the current total. The quota has remained the same since 1990, even as America’s population has grown by 60m or so. Moreover, it includes visas for members of the beneficiaries’ families, who normally use up about half the slots on offer. So in 2011 America admitted only 65,668 new permanent residents for hard-nosed economic reasons, a mere 6% of all the green cards handed out.

Not content with merely rationing employment-based green cards, the government also makes them expensive and onerous to obtain. As with other work visas, employers must first show that they have tried and failed to find a suitable American for the post. The Department of Labour has strict rules about how, and for how long, this should be done. It demands two advertisements in the Sunday print edition of the largest local newspaper, for example (online advertisements will not do), along with various other recruitment efforts spread out over a month. Next, the employer has to convince the Department of Homeland Security that it has the wherewithal to pay the applicant indefinitely. A second, overlapping set of quotas which applies only to immigrants from countries that account for a high proportion of visas, including India, China and the Philippines, further complicates matters and can lead to years of delays. Lots of audits and inspections of all this add another layer of frustration and expense. A firm can easily spend $10,000 on immigration consultants and lawyers.
for a single application, along with around $1,500 in fees. Any mistake carries a risk of big penalties.

Worse, it is almost impossible for people like Ms Sanchez, with no formal job offer but with valuable skills, to obtain a visa, temporary or permanent. (Much the same goes for entrepreneurs, even if they already employ people in America, unless they are ready to invest at least $500,000.) This makes no sense to Ms Sanchez. She has already proved through her work for FDOT that her skills are in demand. If she does have to leave, she will put them to work in some other economy instead of America’s. “I pay my taxes. All my paperwork is in order. I’m bringing something to the community. I don’t see why it should be so hard,” she says.

Fred Young, the boss of Forest City Gear, agrees. His firm, which makes gears for NASA’s Mars rovers, among other whizz-bang devices, needs more staff, but struggles to find enough qualified Americans. Workers with an advanced degree in science, technology, engineering or mathematics (STEM) are much in demand. Only 3% of them are unemployed, compared with 7.9% of workers in general. Among some STEM professionals, such as nuclear engineers, computer-network architects and petroleum engineers, there is virtually no unemployment. According to a projection from Georgetown University’s Centre on Education and the Workforce, between 2008 and 2018 America will create 779,000 jobs requiring a graduate degree in a STEM field. Yet on current trends only 550,000 native-born Americans will be earning such degrees over that period, leaving firms no choice but to turn to immigrants.

That would be no bad thing. A 2011 study conducted on behalf of the Partnership for a New American Economy, which favours looser immigration rules, found that employment among native-born Americans increased by 262 jobs for every 100 foreign-born workers admitted with advanced STEM degrees from American universities. For every 100 H-1B visas, 183 Americans found jobs. Employing foreigners with any sort of advanced degree had a similar, albeit smaller, effect. And such foreigners on average paid about ten times more in taxes than they received in government benefits.

On the whole, though, immigrants are not STEM whizzes. In fact, they are four times less likely to have finished high school than the average person born in America. But immigrants of all sorts still bolster the economy. They are more likely to be working than the native-born, accounting for just 13% of the population but 16% of the workforce. They are also more likely to apply for a patent or to start a company. One study found that 18% of America’s biggest companies were founded by immigrants and a further 23% by the children of immigrants.

Most immigrants are not, over the course of their lives, a burden on the state. They are much less
likely than the native-born to go to jail. In 2007 a CBO study reckoned that regularising the status of America’s millions of illegal immigrants—the least skilled of all—would bring in an extra $48 billion in revenue over ten years and increase government spending by only $23 billion. Most studies suggest that more immigration would increase aggregate incomes of those already in the country, although they differ on the effect on low-skilled workers.

Immigrants are also saving America from demographic decline, and thus putting off the day when Medicare and Social Security become entirely unaffordable. Jeffrey Passel and D’Vera Cohn of the Pew Research Centre, a research institute, have calculated that immigrants will account for 82% of all population growth between 2005 and 2050, and for all the growth in the working-age population over the same period.

An 11m-strong queue

The arguments are beginning to sink in even in Washington. Of all the items on Mr Obama’s legislative agenda, immigration reform seems the most likely candidate for a bipartisan compromise. The president has proposed handing out green cards to foreign STEM graduates at American universities and offering a “pathway to citizenship” to the 11m-odd illegal immigrants. Various proposals in Congress support these goals, along with a simpler system for admitting temporary workers.

The hitch is that many Republicans consider any measure that might allow illegal immigrants to become citizens as tantamount to an amnesty that rewards unrepentant criminals, no matter how long the wait or stringent the conditions. Moreover, they argue, such a reform would simply encourage more hopefuls to attempt illegal crossings. Many Democrats, meanwhile, seem to view an increase in visas for skilled workers as a bargaining chip for a reprieve for illegal immigrants, rather than as an end in itself.

As it happens, change is already afoot, even without Congress’s blessing. Illegal crossings from Mexico to the United States have slowed to a trickle and more people are leaving than coming in because of the weak economy. At the same time immigrants are becoming increasingly well-educated. Back in 1980, 40% of immigrants of working age had not completed high school; in 2010 the share of dropouts had fallen to 28%. In 1980 only 19% of those immigrants had a university degree; in 2009, 30% did, and 2% had doctorates, compared with just over 1% of native-born Americans.

Immigrants’ greater educational attainment is due in part to the efforts of successive administrations to make it easier for people like Ms Sanchez to negotiate the visa system. Foreign university students with an offer of employment in a related field have long been allowed to stay and work for a year after completing their degree, under a programme called “Optional Practical Training”. In 2008, under Mr Bush’s watch, the government extended the permissible stay for STEM graduates to two-and-a-half years. Last year, under Mr Obama’s, the rules were loosened yet
Mr Obama also temporarily allowed otherwise law-abiding illegal immigrants brought to America as children to stay and work in the country. That will let some 1.7m people live much more productive lives for now—although only Congress can make their reprieve permanent.

Likewise, Congress needs to take action to procure a systematic improvement in America’s infrastructure. But until it gets round to it, creative officials up and down the country are finding ways of making up for its neglect.

From the print edition: Special report
Special report:
America's competitiveness

Infrastructure

A time for renewal

America’s infrastructure is in a dire state, stimulating a search for creative solutions

Mar 16th 2013 | From the print edition

RAHM EMANUEL, THE mayor of Chicago, Illinois, lifts up a decayed wooden tube and waves it for emphasis. Many of the city’s water pipes are over 100 years old, he says. Some, it turned out when the Water Department got round to replacing them, are made of wood. No wonder the network sprang 3,800 leaks in 2011 alone. Yet at the pace of investment that prevailed until last year it would have taken the local water company until 2059 to refurbish all the mains, the mayor points out.

Everywhere Mr Emanuel looks, he sees the need for new or improved infrastructure: pockmarked roads; century-old stations on the “L”, Chicago’s elevated-train network; grand but draughty municipal buildings; a congested airport; clapped-out schools and community colleges. Over the next three years alone he plans to spend over $7 billion to start fixing all this. But finding the money has required some creativity.

Cities like Chicago, with meagre investment budgets, generally rely on grants from the state and federal governments, along with municipal bonds, to pay for such improvements. However, the federal government’s fiscal woes and the political impasse in Washington have been putting the squeeze on infrastructure funding. Take the highway fund, which Congress created to pay for its share (usually about a third) of improvements to roads and public transport around the country. It is supposed to be fed by receipts from the gas (petrol) tax of 18.4 cents per gallon, but this is not linked to inflation and has not been raised since 1993. Moreover, Americans are driving less, in
more efficient cars, or in ones that run on something other than petrol, all of which leaves the transportation kitty increasingly bare. At the same time the cost of building roads has risen faster than prices in general, further sapping the fund’s value.

Fingers in the dyke

Politics has compounded the problem. The act under which Congress doles out money from the highway fund expired in 2009. Unable to agree on how much to spend, or how to top up the shrinking fund, lawmakers passed nine short extensions of the old act before finally approving a new, two-year bill last year. But this does nothing to strengthen the fraying funding mechanism. Instead, Congress has frozen spending at the current level and cobbled together a few one-off revenue-raisers to pay for it. The Congressional Budget Office now expects the highway fund to run dry in 2014, and the gap between receipts and the present level of spending to reach $109 billion over the next eight years.

Worse, the current level of investment, even if Congress finds a way to maintain it, is utterly inadequate. More than five years after the collapse of a bridge in Minnesota that claimed 13 lives and prompted pledges to speed up repairs, almost 70,000 other bridges, or roughly 11% of the total, are still rated as “structurally deficient” by the Federal Highway Administration. The American Society of Civil Engineers (ASCE) estimated in 2009 that Americans lost $78 billion a year to traffic delays, in the form of wasted time and petrol. A further $67 billion goes on repairing the damage to cars caused by the shoddy condition of many roads. Crashes, a good number of which are also attributable to this neglect, cost a further $230 billion. The ASCE reckoned that for the period from 2005 to 2020 the country was spending only 54% of what was needed to prevent further deterioration, and just 29% of what it would take to set America’s roads to rights.

Falling to bits

Nor are the problems confined to roads. The ASCE thought that America’s water and sewage systems, inland waterways and levees were equally dilapidated, and that its schools, dams, airports, public transport and hazardous-waste disposal were in only slightly better shape. It blamed “delayed maintenance and chronic underfunding” and argued that the country needed to double its spending on infrastructure over five years, from a projected $1.1 trillion to $2.2 trillion. And that was at a time when infrastructure spending was being boosted by a one-off contribution from Mr Obama’s stimulus.
Civil engineers, naturally, are keen on civil-engineering projects. But the Centre for American Progress, a think-tank, reached much the same conclusion in a report that looked only at the federal share of spending on essential projects. Congress, it concluded, was coughing up barely half of the $262 billion a year that was needed.

Such big sums are daunting in austere times, but the potential benefits outweigh the spending. In the short run, infrastructure investments provide a boost to a feeble recovery. The CBO estimated in 2011 that for every dollar the federal government spent on infrastructure through Mr Obama’s stimulus, the value of economic activity increased by between $1 and $2.50—one of the biggest multipliers of the main components of the programme. And a study by the University of Massachusetts-Amherst in 2009 found that every $1 billion spent on infrastructure creates 18,000 jobs, almost 30% more than if the same amount were used to cut personal income taxes.

Every $1 billion spent on infrastructure creates 18,000 jobs, almost 30% more than if the same amount were used to cut personal income taxes

In the long run, investment in infrastructure boosts productivity by enabling people and goods to get to places faster, communicate more easily, spend less time and money on repairs and so on. One recent study found that the construction of a road typically led to an increase in economic activity between three and eight times bigger than the initial outlay within eight years after its completion. (The impact subsequently fades, presumably because congestion returns.) And since the government’s borrowing costs are currently low and the construction industry is still in the doldrums, investment in infrastructure is cheaper now than it will be when the economy is humming again.

Mr Emanuel is convinced of all this. Unfortunately for Chicagoans, the politicians in Springfield, the state capital, are even less help than those in Washington. The state and local authorities have accumulated debts of about $10,000 per resident, which puts them among the top quintile in the country. The pension plan for state workers has assets to cover only 39% of its projected liabilities. In 2009 the legislature approved a series of tax increases on things like sweets and alcohol, as well as an expansion of gambling, with the proceeds earmarked for infrastructure improvements. But so far these measures have fallen well short of producing the hoped-for $1 billion a year. All this has left Illinois with the worst credit rating of all 50 American states—and little money to spare for an
overhaul of Chicago’s infrastructure.

The city has not always been a model of fiscal rectitude. The previous administration papered over deficits with one-off measures, prompting a downgrade in its credit rating the year before Mr Emanuel took office. Although for the most part he has since cut costs enough to match the city’s means, the state’s failure to amend the pension system, in which Chicago participates, raises yet another threat to its finances.

With the city, state and federal governments all strapped for cash, Mr Emmanuel has had to turn to other sources of revenue. One obvious step is to increase the charges to users of the city’s infrastructure. At his urging, the city council raised water rates by 25% last year; by 2015 they will almost double. That has allowed the city to start replacing leaking water mains at two-and-a-half times the previous rate. Similarly, fares on the L are rising, which should help cover the costs of refurbishing decrepit stations. Mr Emanuel also wants to encourage more private investment in the city’s infrastructure, but its left-leaning voters are touchy about anything that smacks of privatisation. They noted that a consortium to which his predecessor sold a 75-year lease on the city’s parking meters immediately quadrupled the fees.

Mr Emanuel’s solution is called the Chicago Infrastructure Trust (CIT). This will help pair investors with projects that will generate a revenue stream to be hypothecated to cover the cost of the original investment, plus a return. First on its list are some $100m-worth of energy-saving measures in city buildings.

Lightbulb moment

At Newton Bateman Elementary School the principal asks a teacher how she likes the new lighting in her classroom. She seems not to have noticed any difference. That is the idea. Workmen have recently halved the number of lights above her head, installed more efficient bulbs and added automatic switches. Over the next ten months the city wants to overhaul the lighting in another 241 schools. It estimates that these retrofits will cost $14m and yield savings of $3m a year. In January it put out a request for “financial partners” to stump up the cash, to be repaid from the savings in the schools’ operating budgets.

From the mayor’s point of view this scheme has several advantages. It enables him to raise money from investors such as foreigners, charities and pension funds who are not interested in tax-exempt municipal bonds because they have little tax liability in the first place. It means that projects with clear benefits but low priority can go ahead sooner, helping to stimulate the local economy. All the assets involved remain not just the property of the city but under its management, so political attacks on “privatisation” can easily be rebutted. The mayor’s supporters in the unions are enthusiastic because the scheme will create new jobs. And although initially Mr Emanuel expects the CIT to get involved in only around $200m of the $7 billion-worth of infrastructure investments he is looking for, he clearly hopes to expand its role if the early projects prove successful.
Mr Emanuel is not the only local leader coming up with inventive ways to pay for infrastructure improvements despite the fiscal squeeze. The number of “public-private partnership” (PPP) projects under way around the country, although still low by European standards, has jumped in recent years. They include a tunnel under construction in Florida, a commuter rail scheme in Colorado and road improvements in Texas and Virginia. The Centre for American Progress, not normally a cheerleader for red-blooded capitalism, reckons it should be possible to mobilise at least $60 billion a year in private infrastructure investment. That would be a huge step up from the paltry total of $10 billion raised through such schemes between 1990 and 2006.

In Indiana a PPP is being used to boost public investment. In 2006 Mitch Daniels, a former governor, championed a 75-year lease of a busy toll road in the state in order to create an investment fund for future roadbuilding projects. The consortium that now runs the highway paid $3.8 billion for the privilege (just before the recession caused asset prices to plummet), as well as promising to invest $600m in upkeep over the first nine years of the lease. Indiana has used the proceeds to increase its roadbuilding budget by a third, to $1 billion a year.

Bob McDonnell, the governor of Virginia, is confronting the gradual decline in revenue raised by the state’s gas tax, which is levied on top of the federal one and suffers from the same problems. He recently persuaded the state legislature to abolish it altogether and instead raise the state’s sales tax from 5% to 5.3%. Along with some other increases, this should provide a steadier revenue stream.

Antonio Villaraigosa, the mayor of Los Angeles, helped secure a 30-year increase in the local sales tax in 2008 to fund transport projects. He then used the projected revenue as security for loans that will allow the city to build the original 30-year roster of projects in just ten years. The idea is to stimulate the local economy and take advantage of low construction costs, just as economists have been urging Congress to do.

Congress, however, is being unhelpful as usual, and not just by scrimping on its own capital budget. Last year, for the first time, it gave states free rein to charge tolls on new highways built with federal help, or on new lanes added to existing ones. But it still bars them from levying tolls on the unimproved portions of existing roads. It has also allowed a law to lapse that encouraged private investment in infrastructure by offering a tax break on bonds that finance it.

Meanwhile, the repeated brief extensions of the highway bill make it difficult to plan for the long term or to embark confidently on projects that might take many years to complete. Mr Obama has long called for a federal infrastructure bank which could invest more strategically and attract private capital relatively cheaply by subsidising or guaranteeing commercial loans. But Congress wants nothing to do with it.

There are plenty of ways for Congress to boost investment in infrastructure without massively inflating the public debt, but America’s governors and mayors are not holding their breath. As Mr Emanuel, a former congressman and White House chief of staff, says, “We can’t allow dysfunction,
whether in Washington or Springfield, to delay our economic development.”

From the print edition: Special report
Brownback in search of villains

Special report:
America's competitiveness

The role of government
Let 50 flowers bloom

Reforms at state and local level point the way for improving the national business climate

Mar 16th 2013 | From the print edition

IT SOUNDS LIKE a character played by Clint Eastwood, or perhaps a type of gun. But the villains dispatched by the Repealer are much more mundane: outdated and unnecessary regulations that slow the growth of Kansas’s economy. Sam Brownback, the state’s governor, created the post as soon as he took office in 2010. He wanted, he explains, to free business from the burden of complying with an endless accumulation of rules.

That is not the only thing Mr Brownback is doing for business in Kansas. Last year he persuaded the legislature to eliminate all tax on reinvested income for small businesses and to cut personal income tax. This year he is proposing to abolish personal income tax altogether. The governors of Nebraska and Louisiana are more ambitious still: they want to get rid of all corporate as well as personal income taxes.

Indeed, these days governors everywhere are boasting about their efforts to improve the business climate, whether by trimming red tape or cutting taxes or running state-funded incubators for start-ups. The competition to attract investment is cut-throat: Idaho has set up a website and hotline to entice companies from neighbouring Oregon and Washington to relocate, complete with handy comparisons of crime, taxes and electricity costs. The state of Ohio has a full-time employee whose only responsibility is to poach jobs from California.
Whether all this is helpful is a matter of dispute. In Kansas the Repealer has found few targets for his wrath. After a year of soliciting suggestions he came up with a list of 51 laws and regulations to be done away with, and the legislature duly dispatched them. They dealt, for the most part, with defunct government agencies, committees and funds and with little-used or obsolete laws. Few businesses will have noticed the difference.

Mr Brownback is not the only politician to have declared war on regulation yet found it hard to engage the enemy. Mr Obama, apparently stung by claims that he was responsible for a “regulatory tsunami”, in 2011 issued an executive order requiring federal agencies to seek out and destroy meddlesome bureaucracy. The Office of Information and Regulatory Affairs, a distant federal cousin of the Repealer, duly produced a collection of edicts whose revocation, it said, would save businesses $1 billion a year. Dairies are doubtless glad that the Environmental Protection Agency no longer makes milk subject to the same safeguards against spills as oil. But it is hard to see decisions of this kind as a cure-all for the economy.

Every little helps

That is too demanding a standard, perhaps. Even small improvements help, on the margin, just as modest extra requirements can accumulate into a punishing load. Moreover, even if the economic benefits are small, governments should still meddle as little as possible, on principle. Nonetheless crusades like Mr Brownback’s and Mr Obama’s tend to come up short because one man’s pointless bureaucracy almost always turns out to be another’s essential government function.

Kansas’s Repealer saw no need to do away with the state’s (unconstitutional) law banning sodomy, but he was eager to dispense with committees on health care set up by the former Democratic governor, Kathleen Sebelius, who as the federal secretary of health and human services is now implementing Mr Obama’s health-care reforms. Equally, Mr Obama sees no need to enforce the Defence of Marriage Act, which bars the federal government from recognising gay marriages, but fiercely defends the laws most often cited by Republicans as founts of job-killing regulation, the Dodd-Frank overhaul of the financial sector and the vexed health-care reforms.

There is no doubt that both the health-care law and Dodd-Frank are unnecessarily bureaucratic. Yet reforms were clearly needed in both areas, and coming up with simple but effective ways to curb ballooning medical costs and systemic financial risks is a task all governments find difficult. Even Mr Brownback is unwilling to say that Kansans would cope just fine without a Board of Barbering to protect them from wayward hairdressers, although he does proudly note that he vetoed a recent bill that sought to impose further restrictions on the trade. It is also easy to paint opposition to regulation as self-interested. Democrats accuse Republicans of being in the pocket of big business every time they query clean-air rules, for example.

Onerous regulation infuriates American businessmen. In some surveys, small firms rate it as their biggest concern, along with the cost of fuel and health insurance. Fortunately, however, most
companies seem to focus on other considerations when deciding where to invest. Mr Markell, the governor of Delaware and a Democrat, and Pat George, secretary of commerce to Mr Brownback, a Republican, both agree that the complaint raised most often by the bosses they meet is the scarcity of suitable workers. A recent study from the Federal Reserve Bank of San Francisco found no correlation between the strength of feeling about red tape and job losses.

To see how firms decide on where to locate their manufacturing or research, Michael Porter and Jan Rivkin, two professors at Harvard Business School, surveyed alumni who had been involved in such decisions. Cutting the wage bill was by far the most common reason for moving abroad; escaping red tape came in at number eight. Three of the five leading reasons for staying put—less corruption, greater security and stronger intellectual-property rights—constitute a vote of confidence of sorts in American regulation.

The things that matter

Bosses also seem surprisingly inured to America’s monstrous tax code. At 35%, the corporate-tax rate is the highest in the rich world. Yet in the Harvard Business School survey tax rates were only number six on the list of reasons for offshoring, far behind labour costs. It helps that in practice most businesses pay far less than the official rate, thanks to the proliferation of loopholes.

Mr Brownback points out that his state is winning residents from California, which has the country’s highest personal income tax, and losing them to Texas, which has none. He argues that low-tax states grow faster, create more jobs and thus see their revenues grow more quickly than high-tax ones. But sceptics point out that these claims, though true, are entirely a function of population growth. Income per person actually grew faster in high- than in low-tax states between 2001 and 2010, and median household income declined less. Average unemployment, at 5.7%, was identical in both.

Mr Markell argues that businesses follow skilled workers, and that the workers value “quality of life”, meaning government investment in everything from bike trails to better public schools. Dane Stangler of the Kauffman Foundation, which promotes entrepreneurship, notes that start-ups, especially the high-tech sort, tend to cluster in places with high taxes and heavy regulation, such as California and Massachusetts. And even Mr Brownback admits that when he talked to some of the state’s bigger firms about abolishing corporate income tax, they said they would rather stick with the present system.

The important thing is that America’s 50 states are vigorously competing to find the best formula for regulation and taxes

The important thing is that America’s 50 states are consciously and vigorously competing to find the best formula for regulation and taxes and introducing sweeping reforms to that end. As this report has shown, they are also tackling many of the other glaring deficiencies of America’s business environment, from infrastructure to education. The president, meanwhile, is trying to find ways
around Congress’s failure to reform the immigration system. And America’s inventors and entrepreneurs are doing their bit to stimulate the economy, most notably by fostering a huge spurt of new oil and gas production.

These changes will become systematic only if adopted or at least promoted at the federal rather than the state level. Congress could give them a huge boost with measures that should, in principle, win the support of both parties. Neither Republicans nor Democrats, after all, have a deep-seated ideological objection to simplifying the tax code or stimulating investment in research and development. Even in more contentious areas, such as immigration and education, both sides agree that more skilled workers are needed and the quality of teaching must improve.

Whether or not Congress puts aside its fiscal vendetta long enough to help with any of this, progress is being made around the country. The changes afoot may be patchy, but they are significant and accelerating. The only way Washington’s duelling politicians could kill off the budding improvements to America’s competitiveness would be by deliberate sabotage.

Sadly, that is not inconceivable, thanks to the capital’s childish fixation with budgetary brinkmanship. In 2011 America came close to default because of a dispute between Republicans and Democrats over cutting the budget deficit. At the beginning of this year the two sides nearly pushed the country into recession amid yet another fiscal stand-off. On March 1st they allowed the sequester (a set of spending cuts intended to be so disastrous that no one would ever allow them to take place) to proceed—although they looked likely to reconsider within a few weeks, before too much damage is done.

So far, at least, Congress and the White House have always stopped short of serious self-harm. And although they did not intend it, the constant to-ing and fro-ing has actually been quite benign. America has avoided the austerity-induced relapses into recession that have afflicted several European countries. It is gradually reining in its deficit, both by cutting spending and by raising more revenue. It will eventually need to do much more to confront rising health-care costs and trim its debts, but the task is not as urgent as most deficit hawks suggest. More to the point, it will get easier when the economy is growing faster—which is why it is so encouraging that beyond the Beltway, at least, politicians are finding ways to ease the restraints on growth.

From the print edition: Special report