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China, Patents and U.S. Jobs

A new report suggests better intellectual property protection by Beijing could create 2.1 million American jobs.

By MATTHEW J. SLAUGHTER

Nearly two years into recovery, America's labor market remains extremely fragile. Unemployment sits at 9.1%, with more than 24 million Americans unemployed or underemployed. The 108.9 million private-sector jobs today is the same number we had nearly 12 years ago. Does anyone in Washington have any ideas about how to create the millions of good jobs at good wages that America needs?

Actually, yes. Last month the U.S. government issued a remarkable report that details how one policy change could eventually create up to 2.1 million U.S. jobs. Oh, and it wouldn't cost taxpayers a dime in new government spending. Thanks to higher payroll tax receipts it would probably help close, not expand, America's massive fiscal deficit.

The report? "China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy," by the U.S. International Trade Commission (ITC). And the policy change? Getting China to better protect the intellectual-property rights of American companies.

The ITC surveyed 5,051 U.S. companies in industries such as high-tech manufacturing, publishing and software to gauge the incidence and extent of infringement of their copyright, trademark and other intellectual-property rights in China. Firms say infringement there is widespread, and it affects not just large multinational firms but many small and medium-sized U.S. companies as well. Extrapolating from survey responses, ITC estimates that all U.S. IP-intensive firms lost at least $48.2 billion in 2009 alone—perhaps even as much as $90.5 billion—from foregone sales, royalties and license fees.

The surveyed companies report that improved intellectual-property rights protection in China could boost their annual revenue there by as much as 20%—more than $100 billion a year—thanks to both higher U.S. exports and higher local-market sales by their Chinese affiliates. More revenue, in turn, would expand their U.S. labor demand by as much as 5%—which could mean over 900,000 new U.S. jobs.

And thanks to supplier linkages, expansion by IP-intensive firms would boost sales and hiring in dozens of U.S. industries. ITC economists calculate that up to 2.1 million new U.S. jobs could be created in total if China raised its intellectual-property protection to U.S. levels. Construction, still one of America's hardest hit industries, could gain almost 200,000 new jobs, a boost of 3.6%. That's because IP-intensive companies based in states like California and Florida will expand sales and hiring, which in turn will generate more demand for home building.

China may be on the rise, but the U.S. retains a comparative advantage in knowledge-intensive activities, thanks to such strengths as outstanding universities and a culture of risk-taking. For American IP-intensive companies, weak intellectual-property protection abroad curtails their sales and hiring opportunities every bit as much as do traditional trade barriers like tariffs and quotas.

Stronger intellectual-property protection in China would also help China. The country has achieved remarkable productivity and income gains since its liberalization began in 1978, and its recently released five-year economic plan wisely aims to expand employment in knowledge-intensive "strategic emerging industries" such as information technology and clean energy. To do this, China will need to strengthen its IP laws and practices. China will not become a global leader in innovation if its government does not safeguard the fruits of its research and development.

The broader message for Washington is that something needs to replace monetary and fiscal stimulus if we are going to have real growth. Unprecedented monetary easing and fiscal deficits will, sooner rather than later, need to be withdrawn and reduced. We need to replace them with imaginative policies that spark private-sector hiring and related investment.

American businesses competing in the global marketplace often worry less about exchange rates than issues like market access and intellectual-property protection. U.S. policy makers have spent far too long hectoring our largest foreign creditor over its monetary policy. They should instead work with China on issues like strengthening intellectual-property rights that will clearly benefit workers and create prosperity in both countries.

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