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Discussion

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Discussion After the Speeches of Robert Cohen and Michael Hart

QUESTION, *Professor King*: One of the questions that one faces in connection with an industrial policy is the question of backing industries. Is it feasible to back an industry if there is the threat of political intervention? In other words, how do you insulate the backing of industries from the politics of today?

ANSWER, *Mr. Cohen*: I think I should respond to the hands-off orientation that was presented by Michael Hart. I think that is truly looking at the past. What I was trying to say is not that this is a government-oriented thing. I did not talk about government driving the car, I talked about an economic strategy. What was unique about the way in which I approached it was to say that this has to be private sector plus the public sector. I am defining this in a different kind of a way. I am not saying that this is the government's role to do and there is no other.

The question raised about the political vicissitudes in providing support for an industry is an interesting one. It does present a challenge to any type of strategic implementation and the long term need to have some kind of commitment to that.

What strikes me is the support for industrial policies that the U.S. has had in the past. Where there has been some kind of a viable strategy used for a sector, that support, in many cases, continued under both Democratic and Republican administrations. The efforts by the United States to develop computers began in the 1930s through government funding for defense and continued with support from Roosevelt through Eisenhower. When the new Republican, business-oriented administration came in, it was not disassembled. It was clear that this program benefitted our economy and government was not the only one in the driver's seat. This distinguishes me from the interpretation that was put forth by Michael Hart. I would interpret his presentation as a "highly-skewed" view of the present world.

I do not want to be so harsh, but I think if Japan came up with a socialist government in the next few elections you are not going to see MITI disassembled, nor will you see the Ministry of Post and Telecommunications ("MPT") change its role in the support for advanced communications.

What Japan has developed is difficult to convey in a traditional sort of economic or political interpretation. One visits Japan and sees an array of mechanisms set up to create broad political support for industrial policies. Banners are hung in front of corporate headquarters, like Sony's, indicating support of high definition television. When

Japan made a mistake with the new system for advanced T.V. it did not stand still. There has not been one mold cast by government. There has been a collaboration between industry and government that is now trying to come up with ideas to react to the situation if Americans set a different standard. There is a whole series of non-government supported efforts to assure that the Japanese population understands that moving into advanced T.V. is critical to the growth of jobs, to the growth of incomes, and to having the money to insure that the Japanese educational systems maintains the advantages it has over the rest of the world.

We have not done that. We have been standing here with almost both arms tied behind our back; even knowing our history. When we developed the first computers, government intelligently stepped aside and allowed the private sector to run with the ball. Within twelve months government cut the red tape out of the way, got the new innovation into the public hands, to business users, as fast as was humanly possible. I think that is a very key way in which business and government can interact.

That is what is being done in Japan. Anybody who does not recognize that has not read any of the myriad of books that are put together. It is not just academia. There are numerous examples of how Japan has developed these policies. There are numerous examples that document what the Newly Industrializing Countries are doing in a number of these areas which has really dramatically enhanced their economies. World Bank studies have documented much of this.

I think we are almost being naive about where we are going in the future to take the kind of stance that says hands off. We are going to be completely torn into pieces in emerging technologies if we have the same stance we have had over the last ten or fifteen years, and our economy is going to suffer for it.

So I think we need to take a much more positive approach, put together the kind of collaboration, the kind of thinking that we can do, and provide a real vision of how we are going to move the economy ahead. We need to use of all of these productivity gains and understand that we are working in a far more complicated economy than we ever did before.

COMMENT, *Professor King*: Well, that was in the nature of a rebuttal, Bob. I thought it was very interesting.

QUESTION, *Mr. Rosen*: I have two questions for Michael Hart. In listening it seems that you had some arbitrary lines that I am still trying to figure out.

Do you believe there are some countries that are adjusting to the tremendous stress that governments are under to act better than others? And, if so, why do you think they are able to do that? Secondly, I was intrigued by your discussion of a rules based system in

education and I have a leaning towards your position. I apologize for this facetious question, but I was wondering if you could ever perceive a day in which we would bring a countervailing duties case against Japan because of their education system?

ANSWER, *Mr. Hart*: A large part of the debate in Canada and the United States on the industrial policy issue is based on denigrating what we are doing. It comes out of the declinist's view of the United States, and it is based on the deeply psychologically rooted desire to be number one, not just by a little bit, but by a wide margin. The United States, because it was number one in the thirty years after the second world war, assumed that was its natural position. It absolutely had to be number one, not only overall, but in everything.

In looking at things that way, it means there are lots of things that are being done well in the United States which are ignored. Rather than going through the litany there is a wonderful article by Michael Prowse, "Is America in Decline?" in the Harvard Business Review which I think is the best piece dealing with the phenomenon of "declinism". That is part of the answer.

Are some countries doing some things better? I am sure if you go around you will find some countries who have one particular mix of policies that works better. But one of the things I think that attracts us so much to the German, Japanese and East Asian model is that there are some things they do better and they do it better because they are different societies with different traditions and different histories. When you have a much more homogeneous society that is much more prepared to accept a more authoritarian government, you are going to have a different mix of policies that have a different kind of effect; policies which you cannot put into a pluralistic democratic society such as here because of the mess created as different interest groups jockey for their share of the plan. Whether you call it a government plan or a government industry plan or what have you, when that strategic thinking is dependent upon government participation in the implementation of that plan, it is going to be dominated by whichever interest group is the loudest. That connects very nicely with countervailing duties and education.

There is in the United States quite a mess inside the Beltway called the Trade Remedy System. This is where industry has been fooled into thinking that all of these regulatory answers are a solution to their problem. Most of them, after they have been through that juggernaut and checked their wallet, find their wallet has been picked by the lawyers who live inside the Beltway. They also discover that the solution that they found was nowhere near as good as they thought that the bill was big.

So a tremendous amount of energy is being devoted to a very foolish set of policies. Fortunately, the rest of the world is not quite as

dumb, although a lot of them are trying to be as dumb. Canada has been as dumb. It adopted a trade remedy system and is gradually developing a trade bar and bureaucratic system, which is dependant on its active deployment.

I would not be surprised if there is some enterprising lawyer right now working on putting forward the argument that the education system, whether in Japan or somewhere else, is an unfair advantage. There you get that wonderful word, "unfair", and therefore something ought to be done about it. The very word "unfair" is, again, a fine example of not wanting to accept comparative advantage.

QUESTION, *Mr. Rosen*: How does it differ from a government subsidizing education versus subsidizing a computer industry?

ANSWER, *Mr. Hart*: Intellectually it does not. The case can be made intellectually that if you have any kind of a targeted education system which reaches certain kinds of results that it is the same thing.

QUESTION, *Mr. Rosen*: Then why is it okay to subsidize the education system and not to subsidize the computer industry in your mind?

ANSWER, *Mr. Hart*: I think government should do the kinds of things that private industry is not prepared to do in a way that meets basic societal objectives. One basic societal objective is equal access to the education system. If you were to put it into private hands you would not have equal access to the education system. That societal objective is an important one, and I think society in North America would not accept returning to an education system which was purely private sector and, therefore, only available to the economic elite. Therefore, I think it is probably necessary for the state to be involved in education.

Now, that does not mean there are not better ways to do things. There is a wonderful book out in Canada by Dian Cohen, largely written by Guy Stanley, called *No Small Change*. She looks at some of these societal changes that are going on and she has a wonderful chapter on educational policy and agricultural policy. If you want to see what the application of industrial policy does, look at what we did to agriculture.

COMMENT, *Mr. Erdilek*: A call for national industrial policy is a call for government intervention. Government intervention, in turn, is usually based on the argument of market failure. The argument concerning market failure is that the private marginal costs are greater than social marginal costs, and the private marginal benefits are less than the social marginal benefits. The question you have to answer is what are the social and private costs and what are the social and private gains?

In the case of computers, I think the appropriate problem really does not arise because if you invest in R&D, you presumably make a

better computer and you get your money out of it eventually. But education is a different matter altogether. You could make an argument saying that education has social benefits in excess of the private benefits because it has the public character to it. But even there I think the call is not for across the board national government intervention, like in the case of Japan or maybe more homogeneous societies but, again, calling for a system that simply addresses the social structure that we have in the United States which is basically a local and semi-private, semi-public type of arrangement.

The issue for national industrial policy is in a specific case on a micro-level. The question will be how do the social and private benefits and costs diverge. But the onus is on the advocates of industrial policy. Time after time the intervention is made on the belief that somehow there is that divergence, and that once that intervention is done the benefits of the intervention will exceed the costs of the intervention. That has to be shown.

COMMENT, *Mr. Robinson*: To confirm what Michael Hart said about government intervention producing a huge body of people, take a look at the Competitiveness Policy Council. The Council features eight subcouncils, each one with not less than twenty-five members. How they ever communicate with each other effectively and advise the President on how he should impose trade policy is beyond me.

COMMENT, *Mr. Rosenthal*: I would like to share with you two factoids that I ran across dealing with educational policy and Japan. The first is that the more important component of the educational system that is successful is the cram schools rather than the government schools. When you talk to most Japanese they will say that is where the quality education is coming from these days. They feel short-changed by the schools that have policies adopted by the Ministry of Education.

The second factoid is, and this one is more at the fringes but it is an interesting one, that the dramatic difference that we see between the abilities of young children in mathematics in Japan, Taiwan and Southern China, on the one hand, and the children in North America, may be very closely linked to the different language structures of English and the Western languages versus the Oriental languages. Apparently, it is easier to assimilate at a very early age the notion of tens and the rule of tens so that computations into higher numbers and the relationships between unitary numbers and complex numbers becomes much easier to teach and assimilate. If that is true, then it may be possible to show some changes for the future.

What I draw from these two factoids are two lessons I think are relevant to the debate. One is there has to be a role, as Dr. Cohen has said, for the private sector in planning and industrial development. I believe that the focus of the discussion should be on the common ground between our first two speakers. The discipline of the private

sector is that it can be looking for the profit-making opportunities that make these available, but it is hard to argue with the idea that there is a role for the private sector in the academic community. Government can encourage the private sector to make contribution. The government can encourage it because governments, for example, will be purchasers of goods and services that will be used in our schools. And, as you say quite directly, budgets are industrial policies, and budgets are an inevitable form of industrial policy that we will have.

The other thing that I think is also important and favors Dr. Cohen's point of view is that even given that no one is good at industrial policy, we still learn and have the opportunity to increase our aggregate of knowledge by having people put out ideas and by testing them.

A healthy dose of skepticism of the kind that Mr. Hart articulates is correct and sound. But one should have a similar dose of skepticism about private sector solutions as well. A lot of the failure of American industry is not the fault of government, foreign competitors, the work force, or the educational system. It was caused by lousy industrial planning by industry. If we recognize all of that, then there are opportunities for collaboration and there are more common points of view than the two of you so far have left us with.