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Discussion After the Speeches of Joel Rogers and Carlton Grenier

QUESTION, *Professor King*: The states use incentives to get industry. They also use tax abatements and training programs. They compete with one another and this, to some extent, plummets the availability of the tax fix. It also may affect infrastructure. Should there be any rules that are applicable to what a state can do ala the European Community ("EC"), for example? The EC gets concerned that too many concessions are made by certain countries to attract industries. Should there be any set of rules or standards or a bottom and/or ceiling on what states can do to attract industry and also to create jobs? Do you want to comment on that, Joel Rogers?

ANSWER, *Mr. Rogers*: I think it would be great to have such a code among the United States. That is just the sort of standard on behavior, including state behavior, that is needed to foreclose destructive sorts of restructuring. Needless to say, it would be extremely difficult to do.

QUESTION, *Professor King*: They put limits on in the EC. The irony of it is you give concessions on taxes, you reduce your base per education, and this is a period of education when you want to increase our skills and our education of techniques.

ANSWER, *Mr. Rogers*: Sure, in the race to the bottom everyone loses in the end.

QUESTION, *Mr. Russell*: This is a question for Carl Grenier. You were talking particularly about industrial policy as it relates to Quebec. Although you indicated that Quebec is fairly careful with its industrial policy, there are those who would argue that Quebec was not the only jurisdiction in at least North America that has what might be called a comprehensive industrial policy. There is a lot of talk about Quebec, Inc., and in that context I am wondering what your thoughts are on the provisions of Article 2.2 of the Dunkel Draft of the GATT. That dealt with the ability of subfederal jurisdictions to subsidize their industry. Under this provision, subfederal jurisdictions, even though they may make a subsidiary generally available within, may be deemed to be providing a specific subsidy. I am wondering what Quebec's position is on that and does it concern you?

ANSWER, *Mr. Grenier*: Actually, the word is subnational instead of subfederal. Yes, we are very worried about this, and I believe the federal Government is very worried too. For those who would not really understand this question, it would mean, for instance, that if we had a program — say a similar program in Quebec or Ontario, and the federal Government would have the same program, exactly the same with the same criteria, and they were subsidizing the same company, the federal program would be acceptable to the U.S. Commerce Department and the provincial programs would not. It poses a problem of political legitimacy in acting in an industrial policy way. I believe that is a political time bomb, not only in Quebec, but also in Canada. Unfortunately, Canada is probably the only country in the world that would be really affected negatively with this provision of the draft's final act because you need to be both a federal country and you need to be a big exporter of the U.S. to be affected by this and, really, only Canada fits that bill.

QUESTION, *Mr. Russell*: Your reading of it is that states in the U.S. are not as concerned as you are?

ANSWER, *Mr. Grenier*: Well, as I said before, the states do not export to the U.S. They do not face the U.S. countervailing duty law. We do. It would not affect them.

QUESTION, *Mr. Fay*: Has not there been some improvement on that?

ANSWER, *Mr. Grenier*: There have been a lot of discussions, but we do not have many allies because of the fact that not many other countries are affected. As you know, Mr. Dunkel has said it is not his text. You have to agree with everybody else to change something in the text.

QUESTION, *Mr. Russell*: The draft, in fact, was driven by the EC provisions —

ANSWER, *Mr. Grenier*: It so happens it is a French idea.

QUESTION, *Professor King*: I have another question for Joel Rogers. You mentioned an institutional framework. You said there are dribs and drabs by the states, but you did not elaborate on that. What was your vision of an institutional framework in terms of institutionalizing some of the things that states are doing?

ANSWER, *Mr. Rogers*: Within states, I think you want to move toward labor market boards (with labor, business, and state representation on them) having overall responsibility, within a particular labor market, for promoting upgrading of the right sort. These boards could also oversee more or less integrated service delivery in those markets. In any case, you want to run some of that cash through them, so that they have some currency with which to deal with firms. The boards should promote dynamic benchmarking of skills standards and training efforts among firms participating in various industry consortia (the existence of which should reduce fears of free-riders in private training provisions), and membership in such consortia should be rewarded with discounts on training costs and all manner of technical assistance. Essentially, the boards should organize "good" business away from some of the problems that lead it not to behave optimally (e.g., poaching on competitors rather than training themselves), and organize business overall to be good (i.e., punish "bad" firms).

Nationally, we need to eliminate the low wage option. This implies labor market regulation, and a sensible trade policy. I favor raising minimum wages, and making unions legal again. Internationally, I favor international labor standards, with quota penalties on countries that do not enforce them, and a "social tariff" on trade flows. The latter would be designed to force a race to the top on international living standards rather than a race to the bottom. For consumers, the tariff would largely eliminate, producer cost advantages judged as illegitimate (e.g., deriving from lower absolute labor costs, or looser environmental protection).

However, knowing that we are very far from this sort of scheme, I would in the meantime encourage much more aggressive use of government purchasing, tax, and regulatory power at home to force firms upward to the highest international standards on production. I believe the states, and the federal government, still have real "hammers" available to them to change firm behavior. They should be used. Everything in the system — all taxes, all spending, all regulation — should be used to encourage high-wage upgrading and discourage low-wage downgrading. Firms that upgrade should, in effect, be subsidized and everywhere aided. Firms that do not should be taxed and otherwise harassed.

QUESTION, *Mr. Fay*: If we are worried about training workers, why not do it through community colleges. We train professionals and we give them students loans that run upwards of $150,000. Can we give bigger loans on the same concept?

ANSWER, *Mr. Rogers*: You can. Lots of people have suggested individual training accounts or other such loans. And I certainly think the community college system is a more reasonable base for improved vocational training than apprenticeship in firms themselves.

QUESTION, *Mr. Fay*: If we are spending so little per worker and Mercedes is spending so much, how are we ever going to build a Mercedes?

ANSWER, *Mr. Rogers*: You probably will not.

COMMENT, *Mr. Fay*: I like your optimism.

COMMENT, *Mr. Rogers*: Well, as President Reagan used to say, facts are stupid things. And the stupid facts of the matter are that, in comparative terms, we spend very little on private training or public vocational instruction for front-line workers. The government is going to have to spend more, and so will firms.

QUESTION, *Professor King*: I have one other question on the same subject. We have seen the German invasion of South Carolina with Bavarian Motor Works (BMW) down there. My recollection was that the reason they picked South Carolina was there were certain training opportunities presented German style to BMW. We are also looking at Mercedes examining sites for plants here. Is the context for training going to change due to the German invasion? Are we going to see a lot of other states affected by that or are these just isolated instances?

ANSWER, *Mr. Rogers*: One general comment. The German model depends on extra-firm institutions to a greater degree than the Japanese model. It is reasonable to expect, then, that the difference between German firm behavior in the U.S. and behavior in Germany would be greater than that difference for a Japanese firm. So it is striking, for example, that Siemens Electronics, which is, obviously, as they say, in the pecking order of universities, restaurants and cities, a world class competitor, does not make investments in training in its American operation on anything like the scale of German ones.

That said, though, I welcome as much of this advanced manufacturing investment in the U.S. as possible. We have to learn how to do it somewhere and I think that it would be useful.

COMMENT, *Mr. Crane*: I would like to comment on Siemens and training. Siemens in Canada is extremely active compared to in Germany. Siemens in Canada is very active in developing and trying to improve the apprenticeship system. Extremely active. And they have been shifting some manufacturing activity from the United States into Canada. Their argument is that there is a higher level of work and of loyalty in Canada than there is in the United States, i.e. less turnover. Therefore, an investment in training is more justified in the plans for a higher level of work loyalty and lower employer rates. So certainly in the Canadian experience, Siemens has played a leadership role in trying to, at least, in Ontario, totally overhaul the apprenticeship training in the electrical and electronics industries and create whole new categories of apprenticeship skills. Their target is to quadruple employment in manufacturing Canada in this decade.

ANSWER, *Mr. Rogers*: Glad to hear it. I was only speaking of the U.S. case. Given what you said about what they said about work loyalty in the U.S., however, it is of course not inconsistent with what I said. If firms know that employees will stay in place, allowing the direct capture of benefits from training, or if they know that their competitors are training as much as they — so that even if they run the risk of their trainee becoming another firm's asset, they stand a reciprocal chance of picking up trainees from someone else — they will be willing to train broadly. If not, not. It is not a matter of culture. It is economic rationality.