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## Discussion after the Speeches of Richard K. Thomas and David Crane

Discussion

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## Discussion After the Speeches of Richard K. Thomas and David Crane

QUESTION, *Professor King*: In Japan you have an industrial policy which was established under committee and which prospered under a single-party system, at least in terms of the party of power. The Japanese tend to think long term. If we wanted to accomplish an industrial policy could we do it, given our mentality? Are there obstacles that prevent an industrial policy from becoming a fact here? You also have the state and federal systems in both Canada and in the United States. Do you see obstacles in the setting here for an industrial policy that do not exist in Japan?

ANSWER, *Mr. Thomas*: Yes, Japan is a different culture. Their Keiretsu system creates an almost seamless interlock of cooperating industries and government institutions. For example, assume that there are twenty companies who are in one Keiretsu group, like Mitsui or Mitsubishi. These own a majority of each other's shares. They then also own shares, somewhat smaller amounts usually, in all of the other major Keiretsu groups. That creates an articulated web in which you have crossed ownerships, both, within the Keiretsu groups, and then between all the Keiretsu groups. This makes setting industrial targets easy for the government. Everybody in industry shares, more or less, in the subsidies being handed out.

This also is one of the major reasons, incidentally, why it is very difficult to penetrate into Japanese markets. Everybody in Japan has a direct financial interest in purchasing first from their Keiretsu group, but if not from their own Keiretsu group, then from some other Japanese company in whose shares their Keiretsu group may have an eight, ten or twenty percent interest. I cannot imagine us being able to match this kind of industrial harmony or wanting to.

The other thing, you have a parliamentary system in Canada. What your [Canada] government does decide can be translated with some precision into legislation. We, of course, have a congressional system. What this means is all of the industrial winners and losers in a U.S. "industrial policy" will be based on which industry is the most aggressive in bribing Congress. The Congress will determine what industries we subsidize or do not subsidize. All the winners would wind up in heavily union areas or in West Virginia because Senator Robert Byrd is the appropriations chairman in the Senate. By the time you run a rational plan to create a new sausage, say, through our log-rolling political process in Congress you do not get a sausage; all you get is bits of meat flung in the direction of congressional power. It just will not work.

QUESTION, *Mr. Russell*: I agree with many of the things you said about industrial policy but disagree on the second question of trade policy and how we should go about doing something in both of these issues. I do not see how you can say that industrial policy is a bad thing, and that the government is notoriously bad at picking winners and losers and then turn around and say that government should then turn around and do exactly that in the trade policy area. You are suggesting that they should, in fact, pick winners and losers on the basis of what industries are subsidized in other countries or in other areas, such as the European Community.

We know for a fact that the United States sins as much as is sinned against in the area of subsidies. There is at least \$150 billion of U.S. subsidies given out by state and federal governments every year. If economics tells us that subsidies are, in fact, a bad thing for trade then there is certainly an economic rationale for letting the European Community subsidize to their heart's content because, if it is, in fact, a bad policy for them, then eventually the thing will work itself out in the wash anyway.

This is the same government that is not very good at picking winners and losers in the area of industrial policy. How then is it supposed to turn around and be so excellent at arbitrarily deciding levels of market share in all sorts of different countries all over the world for all sorts of different products and at the same time decide various other issues of trade policy and sort of unilaterally make these kind of decisions?

ANSWER, *Mr. Thomas*: Two comments. I would declare war on our subsidies too. I do not exclude them. But your number there implies that three percent of the U.S. GNP is going to subsidies. That impact is the subsidy total in the United States. The OECD data indicates it is about eight or nine percent even in a country like Germany. Nobody is pure. But that does not mean we are all equal sinners. Most of ours are in agriculture areas. We have very few industrial subsidies, and nothing like Airbus. That is the first point.

Second, I am not picking winners and losers in Japan. I am giving them purposely a multilateral choice. They make the choices, to reduce their world surplus in any way. Japan is a unique situation. Japan manages its economy already, and manages not to absorb very much in imports. Germany has a trade deficit with Japan that is every bit as large per capita as the U.S. Does this mean that Germans are equally slothful, stupid and no good as competitors as Americans? Of course not. Just as with the United States, the Germans are successful exporters everywhere else.

My case in Japan is offered in sorrow, not anger. We must do something to prevent Japan from continuing to destroy the multilateral trading system. Most of their exports into their major industrial com-

petitors are now under quotas or voluntary restraints. It is forcing creation of cartels in these various industries precisely because Japan is not in world trade, it is only in world exports. Japan is now too big to be tolerated as a protectionist wild card in a free trading multilateral system. All of the Asian countries, to the degree that they can, are using Japan as their model. Something has to be done to save the world system.

The Japanese are terrific people. They are a great nation, and they make great products. They taught our automobile industry a lesson; they taught us all a lesson, and we will continue to get those lessons. But they now simply have to take responsibility for the world system, and they continue not to do so.

QUESTION, *Mr. Rosen*: I want to take you up on your idea of health care as industrial policy. What concerns me is everyone looks at the service side of that industrial policy. You are right, the United States does spend about fourteen percent of GNP, more than the other industrialize countries, on health care. However, some of that excess does go to support a very strong industry in the United States. The health manufacturing industry has small export levels, but it was the largest growth in exports. We are developing technologies that are saving lives around the world.

The question I have for you is why is it that the rest of the world does not bring a CVD case against our drug policy which dumps pharmaceuticals on the rest of the world? We have an industrial policy in the United States investing in the pharmaceutical industry. In this case it happens to be to the benefit of the rest of the world, but it is still dumping the way the Japanese were dumping into the United States. We have got a bit of a double standard here. Is it just a question of which industry we pick for our industrial policies, or is all industrial policy bad?

And on an aside, because you raised the reform question, as a personal interest I am interested in how you think the reform is going to hurt the industry and the research side because no one is thinking about that. If the United States goes and has a reform and we decimate our research, the rest of the world is going to feel that effect through the lack of technology.

ANSWER, *Mr. Thomas*: My first comment would remind you of the very intelligent comment that an earlier speaker made; that is, "willy nilly". Every policy that a government has, tax or otherwise, winds up becoming a sort of industrial policy. There is no question about that. What we are talking about when we say, "Are we going to have an industrial policy?" is doing something beyond it. Do we make a wilful intent to pick industries?

The export consequences for the drug and medical supply industries of the huge explosion in health care costs were wholly inadvertent.

No one willed this situation into existence in the United States. It grew like topsy. We simply let health care grow. The other countries are not complaining because they get their medical services and drugs cheap. In fact, it is their national health services that negotiate the "dumped" prices.

On your second point, yes, the whole medical supply industry will undergo a great change. Once we get cost control of some kind here, the drug companies and medical companies will have to try to find some way to raise their remuneration abroad, in order to continue to crank out the dough that will enable them to do the research and so on to earn the profits to continue in business. There is no doubt it will have to happen. But my answer is, so what?

COMMENT, *Professor King*: My only comment is that the drug industry is one of the areas where we do have a success story.

REPLY, *Mr. Thomas*: Not in Japan. That is one of the things they discriminate against.

COMMENT, *Professor King*: We sell a lot in Europe. I think it is important to note what you are saying, but this is a big success story from our standpoint in terms of its impact on our balance of trade.