Canada-United States Law Journal

Volume 19 | Issue

Article 38

January 1993

What about the Future

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What About the Future?

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When I first received the agenda for this meeting and I saw that the title of my talk would be "What About The Future?" I thought this would be quite simple since the future is already here; we are the future. But then I listened to the papers during the conference and heard that there is still quite a bit of debate before we can say we have already met the enemy. So I am giving myself three tasks this morning. The first is to attempt to summarize and draw some conclusions from the discussions of the last two days. The second is to discuss the Competitiveness Policy Council, what we are doing, and explain to you a little bit about our reports, and why we found it necessary to bring 200 of the top business and labor leaders in the United States together to discuss competitiveness. (That is a return to a comment by someone at this conference who suggested that this unwieldy bureaucratic process could not come up with anything.) And the third is to lay out some policy recommendations. Finally, I think it is important for every group of people that comes together to decide at the end of a meeting where we should go from here.

First, let me go back and review the papers and the discussions during the conference. I think we have been treated over the last two days to an exceptional set of papers, and I think we owe a great debt of respect, not only to the people who presented those papers, but also to Henry King for bringing together an exceptional group of people and organizing this in a very coherent way. Henry had great courage to address an issue that, as you now know, is quite thorny. Even after all of the debate we have been having over the last decade, we still have not yet resolved the question of whether we should have an industrial policy.

The program that we received says on it "A Conference on an Industrial Policy for North America". In looking at it, I realized that there is probably something missing in the title —and that is punctuation. Initially I assumed there was a period at the end; "An Industrial Policy for North America." Now it is not so clear. It is probably more like a question mark. "Should There Be an Industrial Policy for North America?"

With that change in punctuation in mind, I decided to go back

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The following text was compiled from the transcript of the remarks made by Mr. Rosen at the Conference.

and reread the agenda. And borrowing from all of the people I am going to be commenting on, I will give you the answers to the questions.

The first paper was "Responding to Competition: Do We Need a More Focused Industrial Policy?" Answer: Yes and no. So they canceled out each other. The next session was "Trade Policy Aspects of Industrial Policy." Now here I think there was another typo. The description speaks of "trade equity and trade imbalance". I think what it really meant to say was "trade equity *or* trade imbalance", and I think the presenters decided on trade imbalance. The luncheon speaker spoke on "Japan's Industrial Policy: What Is It and Has It Worked?" What is it? We do not know. Has it worked? No. The topic of "The Role of Anti-Trust Law and Policy in Forging Industrial Policy for North America" was next. The role should be small and we should get rid of it immediately. "The People Factor in Industrial Policy." Again, I think another typo. "Do people factor in industrial policy?" should have been the question asked. The answer is clearly yes. The post-dinner discussion was on "Industrial Policy in a Federal Structure, The Role of the States and Provinces in Industrial Policy." This one I am completely changing to "Are The States Practicing Industrial Policies?" The answer: Yes.

The next paper we came to was "The Context for Innovation: The Interplay of Incentives and Protection." Again, I am going to use my liberty to change the words to, "The Interplay of Innovation and Production". Yes, yes, yes. "Financing Innovation: Creating the Best Financial Context for Innovation." Yes. The luncheon speaker spoke on, "Does the EC Provide a Useful Guide?" No. And coming to the end, "The Role of Tax Policy in Forging an Industrial Policy in North America." Yes, but we do not admit to it. And "Industrial Policy and Environmental Regulation." Oh, no, not here too. That brings us to the last session — "The Implementation of an Industrial Policy." Again, yes and no. The speakers canceled each other out.

So I went back and I calculated that scorecard and, I assure you this was not by design, came up with six "yes's" and six "no's," so we still do not have an answer. Then I thought the next thing to do was to take a vote. But I will spare you that, and will leave it to our own imagination to figure out where this group is coming out on this issue.

You will note in my remarks that I will purposely use the term industry polic*ies* instead of industrial policy. I think one of the things we were not able to do this weekend was to get a clear definition of industrial policy. From what I heard from the speakers, this group tend to focus on the Japanese model for its understanding of industrial policy. This explains why we kept coming back to the question of whether we want to emulate Japan.

I would like to change the focus this morning to the broader context of industry policies, which many of the speakers also related to, directly and indirectly, in answering the question of should we have industry policies for North America. Before I do that, I want to set out six principles that I think are quite important. They come from the discussion of the last two days, but I must admit, are heavily influenced by my own bias. I would like to be able to say we cannot disagree on these, but maybe this is where the discussion after my remarks will start. I really think these are key and I will keep them brief because, again, I think you should focus on them.

1. *Borders matter:* I think we need to come to an agreement on this. The reason we are all here this weekend is because borders matter. We can talk about international efficiency, we can talk about reducing distortions, but as long as we live in democracies, and as long as the body politic votes for its leaders, borders will matter. And if they matter, then economic policies will have to reflect that reality.
2. *All investments are not created equal:* Now, this was a bit more contentious during the 1980s. I make this remark not so much on the basis of new theoretical work but on recent empirical work. If we learned anything in the 1980s it was that diverting investment from production to the real estate and financial sectors does not create many jobs and does not substantially raise national incomes. This is probably the most contentious thing I will say this morning.
3. *Markets are good and they result in efficient outcomes, but they are not the only game in town, and they may not be appropriate in all cases*, as we heard from most of the speakers in terms of social goods and the like. Here I am going to paraphrase Douglas Rosenthal a bit. Markets may solve a lot of the problems, but it is not clear we should allow them to.
4. *National economies are becoming increasingly globalized.* Now, international economists and people at this conference have been saying this for over ten years. One would think that if we said something long enough it would start penetrating and shift the way we operate. There are no more purely national policies. Although policies may be designed to meet my first criteria, that borders matter, their consequences will surely be international. Our standard of living, which is determined at the national level, will have to be as a global economy. This point has been made quite well by previous speakers.
5. *Change, while it might be good, will always raise anxiety and be resisted.* Michael Hart's comment on the "stress of change" is excellent. The change may lead to a positive end, but the process of change increases anxiety.
6. *The role of the state to identify and promote the national interest.* Note here that I am not commenting on the degree, I am com-

menting on the task. The debate will be on the degree to which the state should involve itself in that process. But the task clearly is there. How has the debate on industrial policy changed over the decade? What is new? What do we have today that we did not have ten years ago? Are there new ways of thinking about things? In some areas, we do have new evidence and information, but I do not think they significantly alter these debates. But I do believe we have a new situation.

Let me identify for you what I think are the factors of this new situation, much of which came out of our discussions. The first is the velocity of change seems to have increased. I say "seems", because I am still not sure, although most speakers tend to agree. Change is ever present, but it appears that change is taking place at a quicker rate now than it did in the past primarily due to technology. And again, as was commented last night, the notion is that the new knowledge-based economies are here to stay.

Second is this "globalization of business", as Michael Hart has suggested. This is a new situation, and it has taken us some time to get used to. This probably explains much of the tension we are now feeling.

Third, something we did not hear much of, but which I think is rather critical, is the end of the Cold War. For forty years this was really the raison d'etre of the West, and now with this objective removed I believe that we will be changing our focus from national security to economic security issues. We heard last night from Richard Thomas a little bit of what that might mean, i.e. that with the removal of the common enemy of the Soviet Union, only now, after forty-five years, are we really going to begin to test this alliance that we believed was so sound. The real test will come in the economic battlefield, reflecting the comments on Airbus and Japan. These battles will probably be more intense, more frequent, and will hit at the heart of more people than the battles of the Cold War. The United States, throughout its history, has been able to always fight its battles on other people's territories. Economic battles will be fought on everybody's territory.

Fourth, and I think this really is the strongest reason for this new situation, is the actual economic record. What has been happening? First off, the United States has been having recurrent recessions, and recoveries from these recessions have been less robust. The United States has experienced a steady decline in real wages. More generally, there is a perception in the United States that we are worse off today than we were ten years ago. Again, I use my words quite carefully, since if you look at the traditional measure of standard of living, per capita Gross National Product ("GNP"), you do not see a significant decline. In fact, the United States continues to lead industrialized countries in per capita GNP, although the gap may be closing. But there is this perception we cannot deny in the United States, and I think it is born out of the fact that people believe they are putting more in and getting less out of the economy. It is taking two-income families to maintain the same standard of living that single-income families had twenty years ago. This is a very important concept, and had Mr. Bush understood it he might have won the election.

The fifth element of this new situation is, as I alluded to under my first six tenets, there is a change in the thinking about the role of government. If anything, I think that is what epitomizes what the Clinton Administration brings in this new era. The Clinton Administration may not want the government to play a more active role, but it is clear that they believe it should play a more visible role. This is another example of perception versus reality. As we all heard yesterday, the Bush Administration made a major push on technology policies and it was quite curious, at least to me, why the Bush Administration did not want to take more credit for it. They planted the seeds for the industrial policies that the Clinton Administration will be building on. A lot of this seeding has already taken place; the Advance Technology Program ("ATP") is already there, the National Institute of Standards and Technology ("NIST") is already there, Semetech is already there. There are no new major fundamental initiatives that the Clinton Administration is bringing in. They are making these programs more visible, more prominent, and they are putting a higher priority on technology policies.

This led us, crossing over to our Council, to think when we were preparing our first report last year, that other countries, Europe and Japan, have industry policies, admit to them, and do them relatively well. The problem is that the United States tries to deny having them, and we do so poorly. The implication is, of course, that we also had them. There is not much new being said on this topic, but what is new is who is saying these things.

S. Linn Williams introduced a very useful outline of industry policies that have a direct or indirect effect on industries — macro policies, structural policies, and sectoral policies. This actually is a mechanism we also used at the Council in our first report.

In bringing this entire discussion together, I think there are two important questions. The first is, how important is the industrial policies to competitiveness, which means standard of living. This is really at the core of the debate. How important are industrial policies to developing industry's ability to compete and the country's competitiveness and our standard of living? On the macro policy side I think it is widely agreed that it is highly important. Structural elements are also very important. And here I note that we are just beginning to appreciate the importance of the structural elements. Ten years ago we were primarily focusing on macro elements, and now there really is a move towards more interest on structure elements.

It was very interesting how the first discussion moved very quickly to education, infrastructure, and technology policy. These three elements are quite important, and I think they will frame the debate of the 1990s.

The last is sector policies which, I will have to admit, is still dubious in terms of its role of helping industries compete in world market, and this whole issue of standard of living and competitiveness at a national level.

The question then becomes what is the role of the government in each of these areas? It was, and still is, believed that most macro policy is the sole responsibility for the federal government, except in Canada as you heard yesterday. There is only one actor deciding on fiscal and monetary policies. I think competing macro policies within a country may be interesting, but in the United States we do not have too many people vying for responsibility for the budget deficit.

On structural policy I want to introduce the term "partnership". I think that the responsibility for education, technology, and infrastructure is a partnership between government and the private sector. Kent Hughes talked a bit about it for the United States and Larry Thibault talked about it for Canada. In the end of the day I believe we will find that governments, probably because of lack of resources, will tend to focus on these things and not so much on industry specific policies.

I am now going to focus the remaining part of my remarks on what I call industry specific policies, and it still is not clear what the role of the government should be in this area.

The Competitiveness Policy Council has stated that at a minimum the question is not should the government involve itself more in sector specific policies, but can it do it better? Because of the notion that I laid out at the outset, that borders do matter, governments are petitioned to take industry specific measures. The challenge is not so much should the government do it or not, because governments do act on industry's behalf. The question is can we do them in a way that they are less distortive to the national and international economies, and in ways which are more effective in meeting their stated objective? That is really what our council has focused on.

There are three issues within industry specific policies. One is the tools that are available. The second is the resources available and the limitations on those resources. There are built-in limitations to how much a government can do on all of these things, and the question becomes how they trade off priorities. These trade-offs appear in government budgets every year. The key question becomes allocation of resources. The last one is the whole question of coordination. How coordinated are these policies? Again, it seems that if I were to make one major distinction between the United States and Japan, it would be that viewed from here, Japanese policies are more coordinated and our policies are much more haphazard. Even Norman Ture suggested that our tax policy, which punishes people for saving at a time when we need to raise capital, is just absurd. We have what we call perverse incentives in our system that basically work against ourselves as we try to meet our national objectives.

I would like to take a couple minutes now to talk about the Council. Usually I do not wait this long in saying that the Competitiveness Policy Council should not be confused with the Quayle Commission, but many people do not even remember what it is now so it makes my task a little easier. The Competitiveness Policy Council is a federal advisory commission that was set up in 1988 by Congress to advise the Congress and the President on policies affecting U.S. competitiveness. It is twelve-member commission and has representation from business, labor, public interest and government. The appointments to the commission were made by the House, the Senate, and the Administration. It is bipartisan, with six Democrats and six Republicans. We see ourselves as the only national forum that is purely national in that it is representative of the entire economy in terms of sectors, in terms of political perspective and in terms of the interest of Congress and the President looking at these issues.

There are several other groups in the United States currently looking at these questions. There is the private sector Council on Competitiveness which is a membership group made up very similarly of business and labor leaders. Our group differs from that group in two respects. One, our mandated representation and inclusion of federal government members and, also, they tend to focus almost primarily on technology issues and we take a much broader attack at the question looking at education and training and the like.

There is another group sponsored by the Center for Strategic and International Studies called the Nunn-Dominici Commission, claimed by Senators Nunn and Dominici. And most recently Senators Rudman and Tsongas have formed a new group called the Concord Coalition which is primarily looking at the budget deficit and is also interested in this whole question of standard of living.

I list these different groups not to show how inefficient the United States is in addressing a problem, but as an indication of how much attention these issues are getting and how serious the problem has become in the United States. Returning to my earlier comment, it is not so much what is new that is being said, but who is saying these things. And I think that is what is important.

There is a broad-base consensus now in the United States that our standard of living is at a risk and that we must do more to secure it. I have been using the terms competitiveness and standard of living interchangeably. And I think this is really at the core of the industry policies debate. Countries choose to take on industry policies in order to promote standard of living and creation of jobs and income within their borders.

The Competitiveness Policy Council came together in 1991 and we issued our first report in March, 1992. We are mandated every year to make a report to Congress and the President. In this report the group, in a consensus fashion, from Rand Araskog of ITT and Jack Murphy of Dresser Industries to Lynn Williams of the Steelworkers and Jack Barry of the Electrical Workers, came together and said that, "Our competitiveness is steadily eroding." We have a problem. The group called for a comprehensive strategy to attack this issue and also raised some specific questions.

The one line that received the most attention in this report, which was rather provocative, was that we called for the United States to improve its ability in making sector specific policy when called upon to do so. It was actually just a small paragraph back in the document, but it was the one that got the most attention. We were not calling on the United States to get more actively involved in setting sector policy, but that when taking sector policies, it should do so in a more thoughtful way. We have two things in mind. First, we call on the United States Government to increase its analytical capabilities about industries. We feel that the government is actually handicapped when responding to industry requests for assistance. The government ends up relying on interest groups, those vested parties, in deciding if they should, in fact, award any kind of assistance. There is no independent way within the United States Government to assess industries and know where they are going. Again, this knowledge alone does not need to lead to a more activist government role. Some people are quite concerned about that. At the outset, we believe better information would lead to better policies.

Second is the actual design of government action. Currently, it appears that the United States, in part due to pressure brought by industry, takes policy actions which shoot ourselves in the foot. The computer screen case in the Summer of 1992 is a very good example. First of all, we had no independent way of knowing what was really happening to the industry. We had to rely on the industry when the cases were brought forward. The government decided to take some kind of action and we set very high tariffs moving production offshore and hurting our domestic industry. The result was that we ended up supporting obsolete technology in the United States allowing Japan to once again leapfrog us three or four generations forward in technology.

It is possible that if the government had been a little more of an independent actor, it would have been able to either anticipate the problem through advanced R&D or it could have resisted a distortive response and designed a response which would have been less distorted to the U.S. economy.

The Council calls for a three-part response. First is an assessment of the industry. The second is a vision for where the industry is going. It does not have to be one single vision as we understand the Japanese do. It might be modeling out under different scenarios where an industry might be going. And third, some kind of early warnings of what is happening abroad, i.e., new technologies and new actors in the market. At this point, the U.S. Government has no capability of answering any of these questions about our industries. We have tried in the past to do some of those things, and we think that needs to be done in a consistent and coherent manner.

The International Trade Commission has actually taken us up on our recommendation and is considering creating an Office of Competitiveness in which we will begin doing these assessments of industry. It will take quite a bit of time until it gets up and running, but that is the intention.

It is interesting, and I think a nice irony, that it is the organization that has been viewed in the past as being protectionist which is now the one taking more positive steps in identifying and assessing our industries and where they are headed.

Let me turn briefly to our Second Report. Many of the recommendations we listed in our second report are included in the Clinton proposals that have been coming out. Again, in part, because members who were involved in our work are now involved in the Clinton Administration, but also because our recommendations are the result of a consensus among important parts of the economy. What makes our effort different is that we present our recommendations in the context of meeting some national goals.

The debate over industrial policy should be within the context of identifying national objectives. What is our purpose in introducing industrial policies? As has been mentioned throughout this discussion, productivity growth rates in the United States have been rather dismal since 1974, growing at less than one percent annually, and productivity growth is actually the nutrient to the standard of living. If we are aiming to raise our standard of living, our real focus has to be on productivity.

So the Council set out the goal of doubling our productivity growth to closer to two percent annually by the end of the decade. I should note that recent productivity growth rates in the United States have already been above two percent. This is due to the fact that we are coming out of a recession. In addition, all productivity growth is also not created equal. The growth we are currently experiencing is not necessarily the kind of productivity growth we want. That productivity growth comes as a result of downsizing. We want productivity growth that comes as a result of enlarging the economic pie. So our second goal is to have sustainable long-term GNP growth of three to three and a half per annum.

The third objective is that we need to eliminate our current account deficit and stop financing our growth with foreign borrowing. That way it will make this growth sustainable over the long run.

The Council then asked, what do we need to do to meet these goals? We found that we would have to raise our national investment by four to six percent of Gross Domestic Product ("GDP"), in order to get the productivity gains along with the economic growth gains. At the same time, we would need to increase our national savings pool by five to seven percent of GDP. As people mentioned over the last couple days, the United States comes into this process with the lowest national savings rate in the industrialized countries. So that is quite an onerous task.

National saving can be separated into private and public savings. We found agreement in the academic community that there is very little that can be done to significantly stimulate private savings, through Individual Retirement Accounts ("IRA"), for example. These seem to be a lot of substitution, not just in terms of private-to-private savings, i.e. current-to-future savings, but from public-to-private savings because you have to take into account the lost tax revenues by liberalizing IRAs or other pension or savings-type incentives. So there is agreement that there is not much that can be done on private saving but we nonetheless do call for a national policy to increase private savings with national leadership coming from the President.

The focus is thus on public saving, the budget deficit. We will not be able to accumulate the kind of saving to make the kind of investment to increase our productivity to raise or shore up our standard of living if we continue to run these kinds of deficits.

On the investment side, we look at education and training on the human capital side, and technology, manufacturing infrastructure, on the physical capital side. We also look at trade policy and corporate government issues. We established eight working groups, made up of the same composition of business, labor, public interest and government, and brought them together under the direction of senior national leaders. These groups made their reports to the full council on each of these issues, which are released together with the Council's report. The Council then took these recommendations, prioritized them and reported them in the full report of the Council.

To return to the opening discussions of the conference, we find that there are several efforts at bringing people together on these issues. All of these people, all of the parties who have a vested interest, are understanding how it is affecting them and now want to have their input into the process. That is why we had the kind of outreach that we did. This is not necessarily an onerous bureaucratic process, but rather, I would say the opposite, it was an incredibly inclusive process, and it was quite surprising to us how quick such diverse groups were able to come to agreement on issues.

On that I will just note another parenthetical, Dan Yankelovich, who is a member of one of our groups, has written a very interesting article on the politics of the people accepting policy changes. He comments that there is a large area of changes that people are in agreement on, that they are ahead of our leaders, and they are looking for leadership to bring these changes about. To be provocative, I think the health field is exactly a case in point where the people are ahead of our leaders. There is more sentiment in the public than there is amongst our leaders regarding the idea of taxing Social Security, a Value Added Tax, or a gasoline tax.

I want to end with some policy recommendations because I think that is important to leave here with where are we going. The first is, as I have been mentioning, governments need to promote better industry policies. I have three criteria to achieve that. One is they need to be more coordinated. They need to be less distorting, both nationally and internationally. We need much more research to evaluate these policies and make them quite transparent, and show people what the cost of the benefits are so people can make educated decisions including voters and leaders.

On the national level I would call for governments to improve the way in which they make these policies. In the United States, the first step is to create mechanisms to better assess our industries, where they are and where they are going.

The second policy recommendation is that we need to pay more attention to international rules. Borders do matter. With the end of the Cold War, we need to pay more attention to the international coordination and monitoring and the rules of the system. We are currently moving in the opposite direction. At a time when we need it more, we are doing less of it. Michael Hart was a hundred percent correct in raising the issue, and I think it deserves more attention. But I differ with Michael in that I have always believed that these international rules have tended to focus on the wrong issues; which is, what nations *cannot do*. What they should focus on is what nations *can do*. It would be a radical switch in these institutions to focus on what is acceptable behavior as opposed to what is not acceptable behavior. The area of research that I have done a lot of my work is the whole question of labor market adjustment. There was not much comment about this issue over the last two days, but I think that it is really at the core of what motivates governments to assist industries.

We currently have no international mechanisms telling countries what is permissible in helping their economies adjust. This sets up a system where countries just do things, and then we come back and tell that their actions are unacceptable. The United States countervails against the British subsidy adjustment policy on steel when, in fact, the British policy may have benefitted global welfare. As we move into this next era we must move away from the "arms control" model of international regimes and move into much more positive adjustment measures and focus our attention on admitting the fact that governments will take these actions. We should set some ground rules for what is acceptable in helping governments and directing governments in doing what they will do in any event, which is meet the aims of their voters.

This now brings me to the end of my talk, and I cannot do so without giving my answer to the question of an industry policy for North America. It probably will be clear from my comments. Should there be an industry policy for North America? No. Will there be one? Yes.