

January 1993

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Discussion

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### Recommended Citation

Discussion, *Discussion after the Speech of Howard F. Rosen*, 19 Can.-U.S. L.J. 385 (1993)

Available at: <https://scholarlycommons.law.case.edu/cuslj/vol19/iss/39>

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## Discussion After the Speech of Howard F. Rosen

COMMENT, *Mr. Crane*: On that last point about what governments can do, that is one of the steps that has been achieved to some extent if the Dunkel package goes through because on the subsidy code it delineates the kinds of research and other things that are not countervailable and reasonable. The Europeans wanted four areas: research and regional development, structural adjustment, which the U.S. opposed, and they wanted something on the environment which the U.S. also opposed. So we ended up with just two of the four possible areas of permissible action which would not be subject to counter-vail, but at least it is a step in the right direction.

COMMENT, *Mr. Hart*: I thought this was an excellent presentation. I think it very much captured the theme we have been discussing for the last two days and moved it forward. As an aside comment on me, I think you would be interested to avert the discussions we have had over the last five meetings of Canada's International Trade Advisory Committee which has been looking at the difficult problems over the trade negotiations of the future. I made a presentation to the committee recently which talked about how we have learned to negotiate negative prescriptions. What we have not learned is how to negotiate the positive norms, and negotiating the positive norms is a much more difficult proposition than negotiating the negative norms. In fact, I would like to see an awful lot of policy research done on how you go about building the kind of consensus you need to negotiate positive norms. I think one of the reasons that the Uruguay Round is so difficult is because it is a transitional agreement. It tries to do both negative prescriptions and positive norms and governments are having difficulty mounting the necessary political will to go through that next stage into the positive norm negotiation. I agree with you that is part of the future, but it is a very difficult future.

But I have a fundamentally different view of the world than you do. Let me throw out a slightly different paradigm which I think would have very great implications for the kinds of things that you say. What if the problem is not so much a competitiveness of industry, but the fact that we are going through a very major paradigm shift from one set of industries to another, and that the competitiveness problem is the problem of the industries of the past and not the industries of the future? The industries of the future are doing quite well, thank you, but the industries of the past require an entirely different kind of institutional setting, in the sense of governments, international agreements, and borders. When you begin to look at the economy as being very different now than it was then you have a different answer to whether

borders and governments matter. They may matter in a different way than they used to.

The analysis needs to be much more radical than what you suggest is required. We need a fundamental rethink of the role of government, industry and borders in the economy. I, for one, agreed with Hans Smit yesterday that I am not all that concerned as to whether the state has a national actor who will be around in another thirty or forty years. What matters is people, not a particular action of history which happens to be the nation-state, which happens to have a particular form of organization and a particular way of interacting with its people and so on. Who cares? What matters in the long run is whether the welfare of individual people is enhanced over the years. If that means radical reform over institutions, so be it.

ANSWER, *Mr. Rosen*: I think there is a fundamental disagreement. On my side I will bring as witness Robert Reich, who as Secretary of Labor, no doubt, has no problem answering the question of who are we. What I thought was curious about one of your comments was that you very astutely commented that political economy is where it is all at. However you are making very economically-based arguments.

On the economic side I agree a hundred percent with you. That is where it is going. But I do not see radical reforms on the political side. The comment I made was as long as we are democracies that vote within borders for our leaders, those borders will matter.

Now we are seeing a change in European policy as they are shifting the way they vote. That is more consistent with my assumption, not because of changes in industry but because of changes in the way they are voting.

COMMENT, *Mr. Hart*: That could be economically driven.

REPLY, *Mr. Rosen*: Yes. That is not the kind of changes that I think you are talking about. The other reason is that I do not see us voting with the Mexicans and the Canadians for president. Maybe there is some radical change that will take place, but as long as we all vote at home I think that is what is going to motivate economic policies.

I have tried to be provocative. I mentioned that I am dubious of this comment of the increase by velocity of change. I say it because that is what everyone in this field says. Our shift from agriculture to manufacturing was radical in this country, and the Industrial Revolution was radical in this country. There are a lot of changes that have taken place. I do believe that these changes may take place at a faster rate because the time line on technology is shorter. That is possible. But I am not sure that the return of change has changed that much.

That is not to say that I would not love us to get to a situation where all nations work together as one on common goals. We are not there yet. I think the debate last night between Japanese policies to

stimulate their industries versus our policies promises to continue as long as we have these borders.

QUESTION, *Professor King*: One of the questions that was raised last night, and very seriously so by Richard Thomas, was the Japanese approach is to export not to import. They are playing by a different set of rules. The question is what do you do about it before things get out of hand. In other words, I sensed in what Deborah Wince-Smith and Richard Thomas said a sense of urgency about it.

Do you have any comment on what kind of approach you would take toward that situation? I assume you do not want to do the same thing. What is your thinking on that?

ANSWER, *Mr. Rosen*: This is the central challenge to us over the next few years, that is until we find some other common enemy. The challenge is how to manage an international system that has national differences. I am not trying to escape the hot trade issues, I have my own opinions on those and I am not in agreement with what Richard Thomas said last night. If Canada imposes more restrictive gun controls than the United States, is that going to mean that Canadian criminals are going to start coming to America to buy their guns? How do we manage a system where countries preserve their national sovereignty resulting in different domestic policies?

We are allowed to have our own education system, as bad as we want to make it, and the Japanese are allowed to have their system, as good as they want to make it. Are we allowed to punish them for that? We need to confront our structural differences, and stop trying to make the Japanese look more like us, which I am not sure we can really do, or if we have the right to do it.

So trade is just the tip of the iceberg on that question. The challenge is to preserve national sovereignty in an international system that works to improve global welfare. This can only be done through a system of international rules. We need to learn from what the Japanese are doing in education, so that we might try to implement the successes and avoid the failures. And then we should set up a set of rules of what is acceptable to international norms.

QUESTION, *Mr. Brand*: Your question mark on the role of government in the sectoral policy interested me because you talk about the need to coordinate rather than focus on sectoral specifics. At least we lose the focus sometimes when they are too specific, but in the U.S. Congress has tied the hands of the ITC, commerce, and USTR in acting within the set of rules internationally because it very much has to be made sectoral specific.

In the process that your group is engaging in at this point, the UC is one logical prevention to that process, an emphasis on changing our rules, anti-dumping, CVD, antitrust. We can do perhaps what the Europeans do and have a community interest, a national interest factor

taken into account, or an antitrust going more towards an administrative framework that tends to do that natural. What are your thoughts?

ANSWER, *Mr. Rosen*: That was too direct, so I cannot duck that one. The Council had a group on trade policy under the leadership of Jack Murphy from Dresser Industries. It brought together business, labor, public interest and government to discuss trade policy in a competitiveness context. The group decided early that there were no merits in changing our import laws at the time and instead focused primarily on our export promotion activities, removing export disincentives, better coordination of export financing and promotion, and focusing on macroeconomic and exchange rate stability questions.

Their decision on import laws was due to the group's membership. There was also a delineation between "fair" and the "unfair" trade laws. Most people felt that the "unfair" trade laws were OK in design but may be being applied too heavily. The problem may be we need to do more on "fair" trade laws to insure a proper use of these tools. "Unfair" trade laws are used only when there is clear evidence of unfair trade practices. We tried to take a positive attack on that by, for one, talking about the whole other side of our package — investing in education, infrastructure, manufacturing and technology. I think these things helped. We also commented on this whole question of better understanding of where industries are going. Again, not so the government can get more involved, but so that it is more aware of what is happening to the industry and better prepared to respond if necessary.

The United States devotes an embarrassingly small amount of resources to dislocated workers and helping the labor market adjust. It is embarrassingly small not just in terms of the dollar amount of resources we devote, but also in terms of the numbers of participates in these programs compared to any other country. The Council and its eight subcouncils endorse a more active comprehensive adjustment program which would also serve as an alternative to protection, as it did in a very limited sense back in the late 1970s before the whole system blew up.

So our attempt was to go back to the model of separating fair and unfair trade practices and laws doing more. In terms of fair trade, the group called for positive steps on the investment side, more attention to labor market adjustment, and preserving the more distortive unfair measures for instances where there are clearly unfair trade practices.

QUESTION, *Professor King*: In groups like this, how do we mobilize to act in a very fast-moving world? Can we respond through your group and through our legal institutions as fast as we want to in dealing with some of the new pressures that are in the world? Who is doing the coordinating? What I am concerned about is that we have got a lot of paper here which looks sort of bureaucratic to me. On the other hand, it is laudable. However, I want to translate the paper into deeds.

I think that is the important part.

ANSWER, *Mr. Rosen*: Reading from our first report, we say, "Our present governmental structure was not designed to help this country compete in the global economy. Its only two high level economic offices, the Secretary of the Treasury and the Chairman of the Federal Reserve Board, are primarily responsible for financial matters. The government needs to designate an agency, perhaps a substantially strengthened Department of Commerce or the International Trade Commission, with its functions greatly expanded, that would raise the nations awareness of the competitiveness problem and initiate and maintain several activities."

The Council convened an informal meeting to bring together a group of people to discuss government reorganization. One of the ideas that did come out, and it was more formerly put together in a group that was co-chaired by the Carnegie Endowment for International Peace and the Institute for International Economics. It called for the creation of better coordination of economic policies within the White House. This group is now called the National Economic Council. That was an idea already that Clinton was espousing, but this group and others did promote the idea.

The direct answer to your question is the President of the United States, at least for the United States, is the main spokesman for this, and he has the full responsibility. The Council recommended that economic policy should definitely come out of the White House, and be highly coordinated. We would have gone beyond the NEC in its current structure, to include education, to include people from the Justice Department for crime, and other similar issues. We would have included anything that might have an impact on the economy.

QUESTION, *Professor King*: I think you have a good blueprint and I think the work you are doing is laudable. I am very happy with it. It is monumental to change patterns of thinking that have existed over the years and to make more Americans have long-term rather than short-term orientation. As I say, one of the things we have both in Canada and the United States are elections. Do you have to develop a personality who reacts on these issues?

ANSWER, *Mr. Rosen*: The first thing, on the short term I did not have an opportunity to get into that in too much depth. Part of the central problem of the United States responding to this new reality is that there is no crisis, there is no Pearl Harbor, or Sputnik. The United States is at its best in responding to crises. I think most democracies are similar in this regard. Instead what we have is a problem we called termites in the woodwork. There is this creeping erosion of our competitiveness. You cannot see the beginning or the end, so you really do not know where to begin. As Henry said, we also point out and focus quite a bit on the short-term orientation both of our government policies and

our businesses. We really need to take a more longer term approach. Again, we have to start changing our thinking. I think groups like ours, Nunn-Deminici, Tsongas-Rudman, people who are respected, are starting to do that.

I think there is a movement in the country. I have to say that I think the people of the United States are further ahead of our government in this regard. And I think some of that is changing. President Clinton is responding to that, and he speaks more to that than probably anybody else we have had in that position. We do not have the institutions that do that. We have to, therefore, rely on public input.

QUESTION, *Professor King*: What I am talking about is when something happens in Japan you got MITI. MITI is a frame of reference that sets the whole approach toward what Japan is going to do.

ANSWER, *Mr. Rosen*: We are hoping to play that role. We are hoping to play the role of setting out the framework which I put on the table today. I am not talking about a framework in which we think the next technology is such and such and therefore, the government should go A-B-C. It is a framework which address issues such as the need to double productivity growth, because that is going to raise our standard of living. And the way to raise our productivity growth is to invest more, to save more. Here are ways to save more, here is where we should be investing.

We hope to play that role. We are a government agency, but we are made up primarily of private people and private agencies, except for three government people who are both state and local and federal government people. We also hope to play the role as "competitiveness ombudsman", evaluating policies being discussed in terms of their impact on our national competitiveness.

The first one we are going to take on in a major way is health care reform. We are not going to come up with our own reform package but we are going to try to take the President's package and look at what impact it is going to have on our competitiveness. Who is going to be paying? Is there a shift from business to labor? What will it do to our ability to compete abroad? Those kinds of questions. We also plan to look at this whole question of a Value-Added Tax.

We want to serve both in a positive sense, in setting that context and direction, without mandating it, and also in a more constructive sense of evaluating policies and saying, whether they are pro-competitive or anti-competitive.

QUESTION, *Professor King*: One point that can bring you to specifics, is that with proposed changes in the tax law affecting royalty payments much of our R&D would go offshore. For example, IBM would lose a billion dollars in royalties which would not help our balance payment situation in the least. That is the type of thing we have to react to.

ANSWER, *Mr. Rosen*: This is the first time I have met Henry, and I continue to be amazed and impressed. Not many people have noticed what he just mentioned. It was a small thing in the budget. Most people that follow this, did not even know that this occurred. I do not want to speak too much out of school but I am apparently led to believe that the Administration was going one way on it and ended up doing something completely different in its documents which makes one wonder what happened. Was it, in fact, an oversight or was it done purposely? The bottom line is, it has come to our attention, and we plan to highlight the problem.

One of the proposals of our Manufacturing Subcouncil, in fact, was to change Section 861. We were focusing on that and this royalty happened. It just came from nowhere. I do not want to say too much more because we have not done enough of our homework yet to know if, in fact, it was intentional. A lot of what came out in the budget was done to fit under ceilings, and the Administration and Congress started trading off at the end when they were not making up their totals. So that is something that may have to be cleaned up in the debate. That is exactly what we were planning.

COMMENT, *Professor King*: We have a very crazy quilt of tax laws, particularly matters that were stuck in at the last minute before the bill was signed, and it effects our competitiveness.

ANSWER, *Mr. Rosen*: Right. The point is, until now there was no group like us to go out there and do that job. In fact, I want to make it clear, I am a government bureaucrat only for the purposes of this council. I have been associated with this Institute for International Economics for the past ten years. I do not hope for a long government service. What brought in Fred Bergsten, who is the chairman of the group, was the Congressional debate over the 1986 tax changes.

Fred Bergsten, a prominent international economist, was called upon by the Ways and Means Committee to testify on the tax reforms. Fred suggested that the reform package would be detrimental to our international competitiveness. He asked the group if anyone had done anything looking at what this is going to do to our exchange rates, to macro policy, to competitiveness? The Congressmen all looked at him and said, "No, why? Should we?" That experience brought home to Fred that we do not look at the implications of our national policy on our international competitiveness. Which is why I made the point this morning that we can no longer live in the fallacy that there are pure national policies. All national policies are going to have international implication.

COMMENT, *Mr. Hart*: It is on that prospective that I find it astounding that Jack Murphy's group did not want anyone to look at the import policies because I think I could find you 150 heads of state around the world who would be happy to testify as with what is wrong



with U.S. import policies. I could also find you 150 prominent quality specialists inside the U.S. who also would be happy to testify; including these at the Brookings Institute, and at your own organization.

REPLY, *Mr. Rosen*: I do not want to get into splitting hairs. Is it the trade laws or the trade remedies? On the trade remedy side we clearly stated that you do not want to do things that are going to shoot yourself in the foot. We clearly said that VRAs, were distortive. I can show you where that language is. In terms of the process side, we did not touch that. But on the remedy side, governments by their nature are going to be asked to take action. The question is how distortive is that action going to be?

When we are asked to take that action it is not only distortive, but destructive to the industry, to the economy, and it is less distortive to the world economy. I would agree with you that is the problem.

COMMENT, *Mr. Hart*: If you look at fourteen years of living with the Trade Agreements Act of 1979, I cannot see there is much foot left in the United States because there has been a heck of a lot of shooting at the U.S. foot.

QUESTION, *Professor King*: Will your group be a sounding board for new legislation or will you be a sounding board for those items of legislation such as the tax matters? Is your group going to suggest changes?

ANSWER, *Mr. Rosen*: The only reason I am hesitating is I really do not want you to get the idea this is some gigantic government monolith that is going to come in and correct all the problems. Right now we are operating with a staff of about four full-time people and borrowed space from the Institute for International Economics.

I am going to tell you all of the things we are going to do. The Congress initially envisioned this group to be quasi-permanent. I do not know if this is going to be a permanent institution in the government. We like to think of it as meeting the market test. If after a year or two we see that our advice is having some impact and that we are useful, then maybe we should stay around. If not, then we probably should not. We all have better things to do with our time.

On the specific question, we are clearly going after things that are already in place that are not pro-competitive. The first one I have to point out is education, since it is the first part we focus on in our report. A lot of people in the country have been talking about the need for standards and assessment in improving our education. It has primarily been the education community. The business community has recently joined the discussion. We are trying to broaden that coalition and see education as a national objective for raising our standard of living. We have put a different framework on it. We are not going to take credit for it, but I think when we add to the other groups that have been looking at this issue. We add a very strong impetus to why

we need some significant reform in education right now in this country. We have a system that is the envy of the world. People come to our higher education from around the world, but it is the same system that produces some kids who cannot read and write.

We have got to do something to correct this imbalance. Many of our recommendations are consistent with what has been coming out of the education community, and we hope to give the reform movement more impetus. It is not just using our own creative minds to come up with what the problems are, but also trying to identify the linkage to our national competitiveness.

Another area is infrastructure. This has been an interesting debate. Two years ago infrastructure was poor, and a year ago infrastructure was competitive, and now it is poor again. There is evidence to suggest there is a productivity gained from infrastructure spending. It may not be as high as people like David Aschauer or Alicia Mundell have been suggesting, but it also may not be as low as some other people have been suggesting. But it is still greater than zero. And it is still a very important part of location and the way firms operate. So infrastructure is another area where we try to come in and help define it as a competitiveness issue.

One more diversion. I recently visited Huntsville, Alabama, which is a place that has a technology base because of NASA. They foresaw a problem due to declines in defense spending and they decided three or four years ago that they needed to do something different. They have an economic development agency, similar to those Joel Rogers mentioned. They moved their infrastructure office into this economic development office and one of the first projects was to rebuild their airport so it could handle large cargo for exports and imports. All the large exports and imports in this country have to go through regional ports. Think about that as an export disincentive. They thought about the need to have their infrastructure plans meet their competitiveness objective through increasing exports. They doubled the number of people exporting out of Huntsville. It is not a large number, and it is not going to reverse our trade deficit, but that is the kind of coherent policy we want to honor.

QUESTION, *Mr. Shanker*: I want to follow up with the question that Henry has been pushing with our speaker. You say you want to test yourself out in the market. In large part I got the notion that part of your group's mission is to bring some insights that were not available before. However, people have known for a long time, by way of example, that the educational system in this country is falling apart. That it is very poor is no new revelation. There are all sorts of reasons beyond just international competitiveness why it should be corrected. Assuming that you then put the spotlight on it and point out its implications internationally and its competitiveness, do you intend at that time then to

become a lobbyist, a pressure force to bring about the appropriate change, or do you simply rely upon the rational judgment of our congressman and our political leaders?

ANSWER, *Mr. Rosen*: I will repeat what I have said. We realize we are not saying anything new. What is different is who is saying it. It makes a difference when Rand Araskog, the CEO of ITT, sits at a panel with Lynn Williams of the Steelworkers before Congress and says we need education reform. I can tell you those congressmen listened. That is what is important. It is, if you will, a public education function of bringing it to their attention and making this coalition. We would like to bring new insight, but that is not our only objective. We also want to bring the consensus together to meet this national objective.

Addressing your second question, we have just released this report and we are now debating that question. I would phrase it a little differently. How much do we get involved in lobbying? Obviously by writing in favor of investment tax credit, you are kind of lobbying already. To what extent can we take that further? I think in some cases we may, in fact, do that. We are going to have to test that out. We do not have cases right now. However, we may do that. If we see that our participation will push it over the edge then, yes, I think we will get involved.

But, if you will, again, I thought Douglas Rosenthal used a very interesting phrase. He said that government has to put on its think tank hat. That is kind of what we want to do. We want to raise public awareness. If it means we have to get more involved in that, then we will do that.

QUESTION, *Mr. Knapp*: Is the role of your agency going to be one of a portfolio manager? By taking that perspective on it you could probably accommodate your national charge and your suggestion that industries have life cycles to be accommodated. Have you looked at it in that perspective at all? In other words, you have the macro view of competitiveness of a nation, a global economy, but what of those constituent elements, in terms of the private investments portfolio? What I am suggesting is that those are just models that follow with the analogy.

For example, I will use a Canadian model. The Canadian Grain Board made a decision of probably migrating the majority of their grains to the western seaports at the cost, if you will, of their maritime running through the St. Lawrence Seaway and essentially killed Thunder Bay. It was a national decision to do that. It was very wrong. Again, in the norm of judgment, it happened. What I am suggesting is had your agency in a portfolio management mode been making that decision then there could have been something to offset the detrimental effects on a national level here. What I am suggesting is that it gets down to a very primal level of the sector.

The portfolio management approach might be best. You are going to get a series of overlapping people to say at what point do these things become transitional and how can I implement a policy. Do you see yourself in that role.

ANSWER, *Mr. Rosen*: The reason why Congress wanted to create this group is that there was no central point in the government that was bringing all the interests together in trying to figure out how to improve our competitiveness. It will be left up to us to make those trade-offs, and to make those calculations, and to be able to say while this action might help one industry it is going to hurt the entire economy.

Let me give you some examples. Congress initially wanted this group to put together industry subcouncils. These industry subcouncils would be made up of business and labor people from an industry, and we would be tasked with coming up with some kind of a solution which would then be part of the government response when an industry requested assistance. These industry subcouncils were actually part of the Trade Act of 1988. President Bush vetoed that Act, and when listing why, this was one of the reasons. Because this would have tied the Administration's hands in government assistance to industries. Congress kept the ability to set up these subcouncils, and weakened the administrative side of them. These subcouncils can come up with policy recommendations in an advisory capacity. What we are actually thinking of doing, as we set up these groups, is to set up groups on a specific issues like, for example, the one on the auto industry. Business and labor people would be brought together from the auto industry, within the context of this subcouncil.

We have, at least initially, consciously avoided this situation because we felt we really needed to get sound footing on our objectives and on this consensus on the national interest. Instead, we set up a group on manufacturing and did not set up any specific industry groups. We wanted to look first at those issues that were generic to all industries.

The President has announced that there is going to be a commission on aviation. We are interested in making sure that this effort is seen within the context of this overall competitiveness objective. Again, that says we are not just looking at a sector, we are looking at the sector within a nation. But at some point you have to translate this down to the sectoral/industry level, and we want to do that when we have the sound footing in terms of the structural policies and that.

I hope I answered that.

REPLY, *Mr. Knapp*: That you did. You developed a true line but we do not yet have any teeth in it.

COMMENT, *Mr. Rosen*: We do not have teeth, but we hope to have credibility. It is only a four-staff operation as backup to the twelve

members of the commission. It is getting these business and labor people to stand up together and say we need to do this in the national interest. We are hoping that will lead to some credibility.