

Re-Industrialize, Revitalize, Or What?

By Amitai Etzioni

If the hedgehogs and the hedges keep trading names, it's awfully difficult to provide an even reasonably coherent description of the countryside. Nothing less bewildering is happening in the current important discussion as to what economic policy we should embrace. The terms "re-industrialization," "industrial policy," "revitalization," and "supply side economics," are thrown around at a fast clip, sometimes as synonyms, sometimes as antonyms, and sometimes as both in the same breath. A British executive, R. H. Grierson, attacks "industrial revitalization" on the basis of Britain's and others' bad experience in lavishing support on lame duck industries, a typical failing of "industrial policy," under the heading "Re-industrialization's Poor Record" (*Wall Street Journal*, September 30, 1980). "Some use [re-industrialization] as a synonym for resuscitating industries. Others assume it means marshalling capital for new businesses," reports Paul Blustein in the *Wall Street Journal*. Robert J. Samuelson uses the terms interchangeably in these pages (e.g., August 16, 1980). An anonymous *New York Times* editorial writer finds "re-industrialization" a vague term—and proceeds to list the specs. Joel S. Hirschhorn of the Office of Technology Assessment believes that to "re-industrialize America" requires a "Marshall Plan," a "national industrial policy," and so it goes.

The quest for some measure of semantic order, for making definitions and sticking to them, is not a pedantic expression of an academician's need for tidiness; it is a matter of fixing labels long enough to tell what is in each bottle, and the differences among them. I turn to a modest classification shortly; but first I must heed the dictum to account for the issue the terms attempt to capture. (In purer terms: one's classification should reflect the independent variable under study.)

At issue are competing conceptions, both of what ails the economy and what prescriptions are called for. The advocates of all the varying positions despair, albeit to differing degrees, of the conventional econometric models, Keynesian theories, and policies based on them. All agree that something more is amiss in the American economy than an unduly high reading on some indicators (e.g., inflation, unemployment), poor productivity growth and low savings—that the problem is more severe than just one more downturn of the age-old business cycle, soon to swing up again. All concur that this is not merely or even mainly a demand-

driven (or OPEC-caused) inflation, to be curbed if not cured by trading x points of employment for y points of inflation. All agree that the foundation of the American economy has weakened and needs shoring up. There is not a counter-culture, no-growth advocate in the whole lot.

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The differences are best viewed as divergent conceptions concerning the proper relations between the polity and the economy, and where the levers for correctives are. The positions taken do not directly parallel those taken by the Presidential candidates, or the political parties or the conservative-liberal dichotomy. They may be arranged, for convenience of presentation, on a continuum from radical conservative to moderate-centrist to left-liberal.

At the radical conservative end is the well-known position that what ails the economy is mainly an excessive level of politicization, reflected not merely in an unduly high proportion of the GNP being used and allocated by the polity and excessive regulation of private decisions, but also in the revolution of entitlements, of attempts to deal with all social and many personal needs via the polity rather than the market. Daniel Bell and Irving Kristol have articulated this position, as has Milton Friedman.

The remedy which follows is to reduce the scope and intensity of the polity as much as possible, by releasing resources to the private sector, deregulating, and letting the market do its wondrous things. Arthur Laffer and Kemp-Roth are the most radical of the lot; they hold that the revenue lost via monumental tax cuts will be restored by the higher tax yield of a more productive economy. Other radical conservatives, says Milton Friedman, are satisfied to cut back government expenditures and taxation drastically, without assuming a *proportionate* gain in the economy and tax revenues. Virtue is its own reward.

In terms of the second defining issue, *where the levers for change are*, this approach is wholly non-

targeted. It sees no need to direct, aim, or guide the public resources released to the private sector in any particular way. Indeed, *freeing* them to go wherever the market will take them is the kernel of the approach. It would be mighty useful if everyone agreed to stick to the convention of referring to this viewpoint as supply side economics, the approach which lets private demand work its way, and the private economy respond to it by increasing its capacity to supply what the demand seeks.

At the other end of the spectrum of positions is the notion that, far from being reduced, the polity's role should be intensified. Here the diagnosis is that, compared to other highly successful economies, especially West Germany and above all Japan, American institutions provide insufficient guidance and support for the private economy. The market, it is implied or openly stated, has shown its inability to invest enough in new plants and equipment, to innovate and compete. Executives have grown risk-shy and dividend-happy. Steel mills, auto plants, the textile and rubber industries are crumbling. Computers will soon face a government-orchestrated attack from Japan, while our industries' response will be divided.

According to this left-liberal view, correctives are to be found in emulation of "Japan, Inc.," and above all its MITI (Ministry of International Trade and Industry). In other words, the solution lies in government-guided collaborative efforts, in which business and labor pull together, with government bureaucrats and technologists serving as the task-masters and sources of analysis, tax incentives, capital, and informal if not outright protection. Recent attempts to turn around the U.S. auto and steel industries, following the suggestion of tripartite committees, are viewed as American dry-runs. Beyond this, the advocates of this highly targeted approach see the Department of Commerce transformed into a Department of Trade and Development (or some new agency, the Americanization of MITI) with a desk and a committee for each industry, from ball bearings to industrial diamonds. The trade desk would analyze the industry assigned to, say, shoes; determine whether it is a winner or a loser, whether it has a promising future, in terms of productivity, export-ability, technology/innovations, labor intensiveness, and other good things in life.

The designated "winners" would be showered with government-provided subsidies, loans, loan guarantees, tax incentives, a measure of protection (as in a trigger price or import quotas), R&D write-offs, and what not. The losers would be buried. (Well, the term used is to "sunset" them.) The government might provide the workers with "trade adjustment assistance" to help move them from parts of the country where the losers congregate (Detroit, Pittsburgh) to where the winners roam (the Sunbelt, coal states). Retraining would also be provided.

This policy might be called "national planning," but as the term tends to raise fears of creeping socialism, most of its advocates avoid the label, at least as long as their defenses are up. Instead, the term "industrial policy" is in favor. It is quite appropriate, because the assumption is that the unit at which the

levers of policy are to take hold is not "the economy," or a major sector, but specific industries. Also, "industrial policy" is the label used for such detailed government planning and direction of corporate efforts in other countries.

Critics raise three major questions: (1) Do we have the analytic capacity to determine correctly who will be a winner, who a loser? Does not our record suggest that we will misidentify industries and sink vast amounts of public resources in tomorrow's Edsels?; (2) Will our polity, in which the government tends to be weak compared to business, labor and local communities, especially when these work together for their Chrysler, be able to channel resources to those who merit them by some rational analysis, rather than to those who have political clout?; (3) Is the country—both voters and leaders—willing to accept more politicization, less reliance on the marketplace?

At the center of the continuum, between supply side economics on the right and industrial policy on the left, is the conception that what ails the country is over-consumption, public and private, and under-investment, resulting in a weakened productive capacity.

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Signs of deferred maintenance and lack of adaptation to the new environment of expensive energy can be seen in most of the elements which make up the infrastructure (transportation, communication, power, R&D) and the capital goods sector.

The suggested cure is *semi-targeted*: release resources to the private sector, but channel them to the infrastructure and capital goods sectors, away from either public or private consumption. For example, if we cut government revenues by \$50 billion through across-the-board tax cuts, the funds released might well be used mainly to spur private demand for consumer goods and services (gasoline, for instance): little rejuvenation of productive capacity would occur. On the other hand, if the resources released are guided to the productive sectors of the economy—not to specific industries—re-industrialization may take place. Thus, if tax revenues are "lost" not just through tax cuts for individuals but in part by allowing accelerated depreciation for those who replace obsolete equipment, or who replace oil-based or energy-inefficient equipment with equipment which is energy-efficient or uses alternative energy resources, the released resources will revitalize, *without* determining which will benefit: steel or textiles, rubber or rails. The polity will set the context; the market will target.

Similarly, providing tax incentives for greater R&D expenditures spurs on all such efforts; it does not require any government trade desk or tripartite committee to decide which R&D project is desirable. And if workers are provided with productivity-based incen-

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tives, so they can share directly in renewed economic growth, Washington need not be involved in determining which group of workers is eligible; this is best done by the management and the workers within each corporation.

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Critics suggest that such re-industrialization will return the country to the nineteenth century and focus on "basic" rather than post-industrial high-technology industries. The prefix "re-" does point to a return, but it should not be taken too literally. A return to a strong infrastructure and capital goods sector does not require a return to the same mix of specific industries. Thus, communication satellites and data-phones could do the job of the Pony Express and the Morse telegraph, and slurry pipelines instead of barges might carry coal. The return implied is to higher investment and innovation in the productive sectors, not to anachronistic details.

On a second count, though, re-industrialization must plead guilty as charged: it does favor mitigating the criteria of "comparative advantage" with considerations of developmental economics, social responsiveness, and national security. Studies of developmental economics show that a measure of government-provided incentives and support, even short-term import limitations, is often essential for developing a new industrial base; the same might hold for renewing one. Social considerations urge us not to export all blue-collar work to Third World countries; we have plenty of unskilled labor of our own. National security requires us not to grow so dependent on imported coal, steel, and ship-building that we are unable to withstand interceptions or boycotts.

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The Presidential candidates in most of their various policy addresses are not positional purists. Carter's revitalization (named, in part, to avoid identification with any professor's term; "re-industrialization" was the preferred label in early White House memos—I know, I wrote many of them) mixes much re-industrialization with *some* industrial policy. Thus, reducing labor costs (by offsetting part of business's contributions to social security) or helping replace obsolescent plants and equipment (by faster tax write-offs) is re-industrialization—and it is where the large bucks go. Retraining workers and thus reducing the resistance to technological innovation also helps re-industrialization; so does the American Revitalization Board, which aims to increase general collaboration among business, labor, and the government. Touches of industrial policy are to be found in the suggestion of investment tax credits

to unprofitable firms, in plans specially tailored to help auto and steel manufacturers, and in industry-specific tripartite committees.

Reagan has presented two versions of his economic policy. The original position, often referred to as the more radical of the two, was largely on the side of supply side economics, with some elements of re-industrialization. Its cornerstone was a hefty supply-side tax cut, à la Kemp-Roth. He also favored accelerated depreciation to help replace worn out equipment and plants, a semi-targeted re-industrialization element. The second, more moderate plan, issued in September of this year, moves Reagan toward re-industrialization mainly by sacrificing fewer tax revenues; the plan dropped the idea of removing the tax on oil companies' windfall profits, inheritance taxes, and taxes on interest on savings. This makes financing of developmental incentives more plausible, especially if one assumes that a Reagan administration is unlikely to use the revenues preserved for an expansion of social services, not to mention the civil service. But as no re-industrialization targets other than accelerated depreciation are spelled out, at best Reagan's plan offers a re-industrialization potential. Indeed, removal of the new incentive to saving is counter to re-industrialization, which requires more capital.

Anderson often favors industrial policy in that he wants to rebuild specific industries which have weakened, and target investment credits and R&D write-offs to specific areas within the country and within cities (to inner cities). Other economic policy elements concern inflation (e.g. he opposes tax cuts).

The current positions of all three Presidential candidates are curiously modest in comparison to the needs of re-industrialization, maybe because they sense the voters are scared by large sums. Carter's \$30 billion plan or Reagan's \$50 billion plan (take or leave a few billion) are small vectors in an economy of \$2,400 billion. To launch a vigorous energy conservation and development program alone would cost easily \$100 billion a year once the program takes off; railroad revitalization (or some other main transportation push, say, port renovation and laying slurry pipelines) would easily command \$20 billion a year for a decade; to bring investment in capital goods from its sluggish 10 per cent of the economy to 12 per cent (West Germany's rate is 15 per cent, Japan's 21 per cent) would require dedication of another \$48 billion; add to this the cost of returning R&D to at least 3 per cent of GNP, incentives for higher productivity, trade adjustment assistance, and other human capital requirements, and you see that \$200 billion a year for the next decade is far from excessive.

Without such major commitment, re-industrialization may end up like many of the under-funded social programs of the sixties: we will not be able to tell whether the failure is due to erroneous conceptualization or to lack of commitment of will power and resources. If, after the election, the commitment to a new economic policy grows, I would favor large investments in a semi-targeted re-industrialization, on the ground that industrial policy is technically and politically not viable, and supply side economics is too confident that the private sector can cure all on its own. □