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# A Labor View of Industrial Policy

Henry B. Schechter \*

## I. SECULAR ECONOMIC DECLINE

Over the past few years, various versions of industrial policy have been formulated as the topic moved into the front line of national policy issues. Interest in industrial policy has grown concurrently with a recognition that since the early seventies the economy of the United States (U.S.) has shown recurring symptoms of a serious loss of vitality. The levels of extended periods of high unemployment and reduced plant utilization over the last three business cycles indicate that some long-term trends are operative, rather than just a series of cyclical ups and downs. Unemployment rates, for example, have risen from trough to trough and from peak to peak. Thus, the lowest monthly unemployment rate reached during each of the three most recent successive cycles was 3.4 percent in 1969, 4.6 percent in 1973, and 5.6 percent in 1979; the highest monthly rates during the downturns of the same business cycles were 6.1 percent, 9.0 percent, and 10.7 percent, respectively.<sup>1</sup> During these same recession periods, quarterly manufacturing capacity utilization ratios fell to the low levels of 76.7 percent in 1970, 70.3 percent in 1975, and 69.0 percent in 1982.<sup>2</sup>

The extended and increasingly high unemployment of men and machines during downturns leads to losses of hundreds of billions of dollars in gross national product and income and tens of billions in savings and capital formation. As needed replacement, modernization, and expansion of plants lag, productivity growth slows and the relative competitive position of American industry suffers.

Another measure of the slowdown in U.S. industrial growth is found in the labor productivity growth rates throughout the post-World War II period. Aver-

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1. BUREAU OF LABOR STATISTICS, DEP'T OF LABOR, LABOR FORCE STATISTICS DERIVED FROM CURRENT POPULATION SURVEY: A DATABOOK 247 (1982); BUREAU OF LABOR STATISTICS, DEP'T OF LABOR, EMPLOYMENT AND EARNINGS 159 (Feb. 1984).

2. FEDERAL RESERVE BOARD, No. G.3(402), CAPACITY UTILIZATION STATISTICAL RELEASE (1983).

age annual growth rates declined less in manufacturing than in total private business and total non-farm business as shown by the following figures:<sup>3</sup>

Average Annual Productivity Growth Rates  
(percentage changes at annual rates)

Period	Total Private Business	Total Non-farm Business	Manufacturing
1947-1955	3.7	2.9	3.6
1955-1965	3.0	2.5	2.8
1965-1973	2.4	2.1	2.8
1973-1983	0.9	0.8	2.0

The relatively greater decline in total private business and in total non-farm business than in manufacturing reflects significant shifts in the occupational structure of the U.S. work force. During World War II and immediately after, there was a massive shift from low-productivity agricultural employment to high-productivity manufacturing, and from small, low-productivity retail operations to high-productivity supermarkets. Following these shifts, productivity growth rates were bound to show a sharp decline for total private business and for total nonfarm business. During 1982-83, as the economy came out of the trough of the 1981-82 recession, there was a pick-up in the U.S. rate of productivity growth; but it is debatable whether it reflected more than the usual cyclical recovery pattern.<sup>4</sup>

All of the aforementioned factors contributed to the decline of U.S. productivity growth rates. Productivity growth rates in other major industrial countries also declined but not as sharply as in the United States.<sup>5</sup> Thus, other countries were catching up to the U.S. productivity level, which is still the highest in the world. The two major recessions, in 1974-75 and 1981-82, during which low industrial capacity utilization held down output per hour, also contributed to the decline in U.S. productivity growth rates between 1973 and 1983.

During this period manufacturing remained the highest productivity sector of the economy. However, its share of total jobs declined. As set forth in a recent AFL-CIO committee report:

In 1960, manufacturing accounted for one out of every four jobs. By 1980 it was responsible for one out of five, and by 1990 only one out of six. But even in manufacturing the proportion of 'non-production' service jobs will increase as automation and robots replace blue-collar production workers.

The service-producing sector will continue to be the major source of new jobs. From 1940-1980, business and personal service industries such as health care,

3. See BUREAU OF LABOR STATISTICS, DEP'T OF LABOR, HANDBOOK OF LABOR STATISTICS 218 (1983); Bureau of Labor Statistics, Dep't of Labor, News Release 8-10 (May 29, 1984) (changes in average annual growth rates calculated by AFL-CIO Department of Economic Research).

4. See *The Elusive Boom in Productivity*, N.Y. Times, Apr. 8, 1984, § 3, at 1.

5. See Adams, *Criteria for U.S. Strategies*, in INDUSTRIAL POLICIES FOR GROWTH AND COMPETITIVENESS 395 (F.G. Adams & L. Klein eds. 1982).

education, wholesale and retail trade, repair and maintenance, government, transportation, banking and insurance increased their share of total employment from about 45 percent to about 70 percent. Business services have shown the biggest job gains.

The decline of jobs in manufacturing and the increase of jobs in the service sector have significant implications for earnings and income. In 1982, average weekly earnings were in manufacturing \$331. By contrast, weekly earnings were \$245 in finance, insurance, and real estate, \$225 in personal and business services, and \$198 in wholesale and retail trade.<sup>6</sup>

Lower earnings in service occupations, in part, reflect lower productivity than in manufacturing. One implication of a continuing shift of the sectoral composition of the work force away from manufacturing toward services is that the average American standard of living will be lower than it would be in the absence of such a shift. Another implication concerns the unemployment rate since goods producing industries provide the primary economic base around which service employment can be generated. As primary employment in goods production declines in an area, so does the demand for services. Furthermore, goods can be exported more readily than services to earn foreign exchange credits needed to pay for materials that have to be imported for use as components in U.S. products.

## II. FACTORS IN THE LOSS OF U.S. COMPETITIVE POSITION

A good part of the growth problem of the American economy is due to the decreasing competitiveness of American manufacturing in international trade. In the first two decades following World War II, Japan and the industrial countries of Europe were rebuilding their industrial capacity. Goods produced in older plants by U.S. producers faced little competition. In addition, the pent-up war-time demand, activated by the accumulated savings of consumers, supported a market demand that absorbed the output of materials for construction of housing; for production of automobiles; and for feeding, clothing, and educating an extended baby boom. There was no apparent need to make expensive changes in production, plants, and equipment or to change product lines.

Manufactured imports had an insignificant effect on most American industries in the post-war period. In 1960, for example, imports of shoes, apparel, steel, autos, consumer electronic products, and machine tools represented six percent or less of total U.S. consumption in each of these product areas. In 1979, the import share of the U.S. market for these products ranged from 14 percent for steel to 51 percent for consumer electronics.<sup>7</sup> Since 1979, the import penetration ratios have advanced much further.

U.S. exports in the meantime faced more foreign barriers and more effective foreign competition. The U.S. balance of merchandise trade has been in deficit

6. COMMITTEE ON THE EVOLUTION OF WORK, AFL-CIO, *THE FUTURE OF WORK* 11 (Aug. 1983).

7. Senate Democratic Task Force, *Jobs for the Future* (Nov. 16, 1983) (citing *A Drastic New Loss of Competitive Strength*, BUS. WEEK June 30, 1983 at 60).

for 11 of the last 13 years. That deficit was almost \$70 billion in 1983, and estimates of the deficit for 1984 range upward from \$100 billion.

A decline in manufacturing competitiveness is not the sole cause of the international trade deficit and the low employment levels in the U.S.; the government monetary policy has seriously aggravated the situation. High U.S. interest rates aggravated the debt service problems of third world countries, causing those countries to retrench on U.S. imports. U.S. banks, pouring more money into those countries to help them avoid default, placed more upward pressure on U.S. interest rates. High real interest rates discourage the large investments needed in industrial sectors currently operating at high capacity utilization rates. Greater retardation of productivity growth, supply bottlenecks, and price increases will likely result.

Maintenance of relatively high interest rates in the U.S. has also caused an influx of investments from citizens of other industrial countries seeking high yields. The resultant demand to exchange foreign currency for dollars has caused the value of the dollar to rise significantly relative to the value of other currencies over the last few years. U.S. producers of goods seeking to sell products in the U.S. and in other countries, consequently face a price disadvantage vis-à-vis foreign competitors. There is a need for international monetary policy coordination to achieve a better exchange rate equilibrium for the U.S. dollar.

Foreign investment by U.S.-based multinational corporations also played a critical role in the weakening of American domestic industries. Encouraged by U.S. laws deferring taxation of profits from foreign operations until those profits are brought back to the United States, and by a dollar-for-dollar credit against U.S. tax liability for income taxes paid to foreign governments, U.S.-based multinationals expanded abroad far faster than in the United States. Such foreign investment in new plants and equipment by U.S. multinational firms has grown over the past twenty years, thereby creating more jobs abroad than in the United States.

In addition to monetary and fiscal policies, there are numerous governmental activities and policies affecting the production and marketability of U.S. goods. Defense and procurement policies, for example, substantially influence the allocation of human, financial, and material resources. Energy policies affect production costs. Finally, and most importantly, trade policies generally affect the sale of U.S. goods in all foreign markets. The latter are administered or affected by the Commerce Department, the United States Trade Representative, the International Trade Commission, the Export-Import Bank, and the U.S. Director of the International Monetary Fund under direction of the Treasury Department.

The aforementioned economic policies together constitute an uncoordinated industrial policy which apparently produces undesirable results.

While the U.S. has maintained disjointed policies toward industrial development and international trade, other countries have successfully implemented aggressive, coordinated industrial and trade policies. In the steel, auto, electronic, railcar, aircraft, semiconductor, optic fiber, and a host of emerging industries, the advanced industrial countries in Europe, Japan, and the newly developing industrial countries provide a wide spectrum of strategic government

support ranging from low-cost credit to protection from import competition and government assistance in technology development. The result is a formidable policy "gap" between these countries and the U.S. As a result U.S. producers face an uphill battle for sales—not only abroad but in their own national market.

The United States is still the greatest productive power on earth, but its lead is decreasing. The country must begin to sort out national priorities and channel resources into areas that will modernize private and public facilities and restore the national economy to a condition of stable growth. Failing to follow a course to achieve these objectives, the country will continue to lag in productivity growth and international trade, leave significant portions of its human and machine resources idle for extended periods of time, and suffer a reduction in the standard of living of its people.

### III. FOREIGN INDUSTRIAL POLICIES

A common characteristic of countries that experienced faster economic growth than the United States, is a coordinated governmental industrial policy that systematically includes the views of labor, industry, and the general public.

Shortly after World War II, France began to experiment with government loans and subsidies to targeted industrial sectors. At first industry specific policies were aimed at avoiding dependence on foreign suppliers in fertilizers, machine tools, steel, nuclear energy, data processing, and other, often defense-related, areas. In the late seventies, selected companies with high growth potential received subsidies and loans at preferential interest rates. In 1979, a specific program provided assistance to growth industries for projects drawn up by the ministry of industry. Targeted industries included consumer electronics, robotics, office-automation equipment, and biochemicals. There were also protective measures adopted to safeguard traditional sectors such as steel, shoes, and textiles from import pressure.<sup>8</sup>

In the Federal Republic of Germany (West Germany), the government promoted mergers to achieve economies of scale and to help overcome risk factors in infant industries. Selected industries included electronic data processing, nuclear energy, and aerospace. The government also funded university research and development efforts connected with these selected sectors. It also funded research and development in the coal mining, chemical, machinery, and the electrical industries. More recently, shipbuilders have been aided. The government granted subsidies, including tax allowances, to some industries. Trade policy has been used to protect certain industries that are not internationally competitive, such as clothing and textiles.<sup>9</sup>

The speed of Japanese economic growth in the post-war period required rapid restructuring of industrial composition. Since the Japanese economy is basically a private enterprise system, free competition in large part, brought about this

8. See DeWitt, *French Industrial Policy from 1945–1981: An Assessment*, in *INDUSTRIAL POLICIES FOR GROWTH AND COMPETITIVENESS* 221–45 (F.G. Adams & L. Klein eds. 1982).

9. See Wagenhals, *Industrial Policy in the Federal Republic of Germany: A Survey*, in *INDUSTRIAL POLICIES FOR GROWTH AND COMPETITIVENESS* 247–62 (F.G. Adams & L. Klein eds. 1982).

change.<sup>10</sup> However, the Japanese Government also adopted a number of public policies toward business, most of which were implemented through the Ministry of International Trade and Industry (MITI).<sup>11</sup>

In 1961, MITI established a committee of top government officials, businessmen, and academicians to provide annual reports outlining problems facing Japan's industrial sectors and indicating remedial industrial policies. On the basis of these reports, MITI provided subsidies and low-interest rate loans and suggested joint mergers, joint investments, and other actions. In the 1970s, as the oil-price shocks and effects of poor crops worldwide raised the price of necessary imports, Japan adopted new industrial policies emphasizing technological advancement for industry and avoidance of production bottlenecks. The government protects infant industries, supports research and development efforts, provides low interest loans and assistance in tax and tariff matters, and establishes rules for the conduct of trade and investment abroad. MITI coordinates and guides public and private business planning. Assistance is not industry wide, but may go to one or several companies in selected, strategic industry sectors.<sup>12</sup>

Two things should be noted regarding Japan's industrial policy. First, in arriving at a consensus for an industrial sector restructuring plan, business, labor, and government have input in developing a plan that is presented to MITI. It is generally a long-range plan, spanning perhaps ten years and providing necessary financing for large-scale production. Private investment banking institutions participate in drawing up these plans. Second, there is a government Japan Development Bank which often will participate in long-term financing development plans. The federal financing mechanism provides part of the needed financing, which often acts as the glue to put a tripartite development plan together. The U.S. lacks a sizable investment banking industry to provide large amounts of long-term financing, and also does not have a national development bank.<sup>13</sup>

#### IV. A LABOR-ENDORSED LEGISLATIVE PROPOSAL FOR AN INDUSTRIAL POLICY

For the past four years, the AFL-CIO has been among the leading proponents of a national industrial policy. Among the efforts the AFL-CIO supports is H.R. 4360,<sup>14</sup> the Industrial Competitiveness Act, introduced by Chairman John LaFalce of the Economic Stabilization Subcommittee of the House Banking

10. Adams & Ichimura, *Industrial Policy in Japan*, in *INDUSTRIAL POLICIES FOR GROWTH AND COMPETITIVENESS* 301 (F.G. Adams & L. Klein eds. 1982).

11. Other policies such as that regulating exchange are controlled by other ministries. In that connection, it is noteworthy that from an exchange rate of about 210 yen to the dollar in the last quarter of 1980, the yen was generally in a 220-230 per dollar range in 1981, about 225-270 in 1982, and after averaging 238 per dollar in 1983 was at about 225 at the beginning of April 1984. As a result of the recent reduced yen value, Japanese goods have enjoyed a price advantage over American goods, which contributes significantly to the U.S. trade deficit and the Japanese trade surplus.

12. *Id.* at 307-317.

13. See L. Thurow, *The Case for Industrial Policy* 12-13 (1984) (Occasional Paper of the Center for National Policy, Washington, D.C.).

14. H.R. 4360, 98th Cong., 1st Sess. (1983).

Committee. The subcommittee held dozens of hearings during 1983, listening to 125 witnesses before the bill was introduced and to about 25 after its introduction. After meeting several times this year the subcommittee adopted the bill on March 1, 1984. It was approved by the full committee on April 10, 1984. A description of that bill and H.R. 4361,<sup>15</sup> dealing with research and development, follows.

### A. *National Council*

H.R. 4360 proposes creation of a 16-member National Council for Industrial Competitiveness—including representatives from labor, business, government, academia, and the public—to analyze domestic and international economic data, and monitor the changing nature of the U.S. industrial economy and its capacity to respond to international competition. The Council would identify industries that are vital to national economic growth and employment and industrial development priorities that should be assisted through targeted policies.

One of the main purposes of the Council would be to reverse the decline of American industry. Problems identified in the bill's findings include: a decline in productivity growth; insufficient investment in basic industries needing revitalization and in commercialization and diffusion of new technologies; a lack of patient capital; insufficient research and development investment; systemic inefficiencies in business management and organization, including adversarial labor-management relationships and short-term time horizons; a lack of high quality domestic and international economic data; and uncoordinated programs.

Perhaps the key purpose of the Council is to create a forum or forums in which national leaders with experience in business, labor, academia, public interest activities, and government would:

- (2) develop recommendations to address such problems; and
- (3) create a broad consensus in support of such recommendations.

The Council would provide policy recommendations to the President, Congress and government agencies regarding specific issues relevant to industrial strategies. It would also establish industry subcouncils to develop and recommend long-term strategies for individual sectors of the economy.

The National Council would study the competitive condition of American industries, how they are affected by various economic policies of the government, and how they could be made more competitive. It could consult with appropriate agencies of the government in matters of trade regulation and economic policy affecting the viability of industrial revitalization and the growth plans that it supports. The Council could conduct hearings to obtain the full information that it needs. Sectoral Subcouncils could hold their own hearings and would be able to provide detailed knowledge of industry-specific problems and appraise alternative remedies for particular sectors. Where appropriate, Subcoun-

15. H.R. 4361, 98th Cong., 1st Sess. (1983).



cil reports to the National Council would also assess the effectiveness of employee ownership as a tool for improving the competitive problems of the industry.

Finally, the National Council would provide policy guidance and recommend leading priorities to a National Bank for Industrial Competitiveness.

### *B. National Bank*

The National Bank for Industrial Competitiveness would have a twelve-member Board of Directors. Four of the twelve board members would also be members of the National Council, one each from labor, business, government, and the public. This will aid policy coordination. A director's term would be no longer than six years and no director would be able to serve for more than two consecutive terms. No more than seven of the twelve directors could be from the same political party.

The Bank would be authorized to provide financial assistance in the form of loans and loan guarantees. Financial assistance could be used to revitalize and modernize "mature" or "linkage" industries to make them competitive in a world market and to underwrite innovation in emerging industries. The Bank could make and guarantee loans. Interest rates on loans made by the Bank would have to be reasonable, considering the objective of providing the Bank with a fair return. Also, the interest rate could not be below its own average cost for funds of comparable maturity. However, a loan could carry an interest rate lower than the average rate of similar loans with the same maturity if the Bank paid the difference from its retained earnings into a special reserve account.

In connection with assistance for innovation, the Bank also would be allowed to purchase non-voting capital stock when it is essential to the objectives of the capital development proposal, provided there is provision for retirement or repurchase of the stock by the applicant. The aggregate amount of such stock purchases by the Bank would be limited. Project financing by the Bank would be limited to 30 percent of the necessary funding.

As part of the written application for financial assistance for revitalization, the applicant would have to submit a plan specifying how it intends to use the assistance to become internationally competitive. Where the Bank considers it necessary, the applicant will have to describe how adjustment commitments will be entered into by parties with an economic interest in the plan including management, employees, shareholders, creditors, financial institutions, and governments.

The latter requirement has been espoused by Felix Rohatyn, an investment banker and a leading proponent of a U.S. industrial policy. In testimony before the LaFalce subcommittee he said:

The board could have as part of its machinery a credit agency, a Development Bank modeled after the RFC of the 1930's. Any assistance it gave would have to be based on the principle of shared sacrifice. Labor would make its contribution through wages, benefits, and productivity; management through new investment, job security, and more efficient working conditions; creditors and investors through matching commitments to any Development Bank commitments. Trade, tax, and

credit assistance could always be conditioned on appropriate contributions by all parties; and it would be temporary. An expert staff would consider the conditions under which specific industries could become productive and competitive—if that is possible—and would provide guidance to the board. Not everyone would qualify for help; bailouts for the inefficient are not part of the plan.<sup>16</sup>

Rohatyn also urged the following expansion of Bank investment powers, not included in H.R. 4360:

Although the Development Bank's investments would be limited to industrial projects, I would strongly urge that it be empowered to finance public projects directly related to such industrial investments. Thus, for instance, if harbor, storage, or transportation investments have to be undertaken as part of a particular industrial project, the Development Bank should have the authority to participate in such investments.<sup>17</sup>

An application for financial assistance would have to indicate how the non-federal part of the necessary financing would be provided and include details concerning production, distribution, and sales plans, as well as productivity improvement plans. It would also have to include an adequate program of adjustment assistance for workers displaced from their jobs as a result of implementation of the applicant's plan.

The Bank could provide technical assistance to help prospective applicants meet the various statutory requirements. The latter provision reflects the views of industrial policy supporters who look upon Bank assistance as the leverage which can get labor and management, suppliers, lenders, and other participants to make necessary compromises to the creation of viable enterprises. The financial restructuring programs of New York City and Chrysler are cited by people like Felix Rohatyn and Robert McNamara, former President of the World Bank, as prototype examples of this type of cooperation.

The Bank would not provide financial assistance for investments outside of the United States, or for projects whose primary purpose is to facilitate or impede the relocation of industrial or commercial plants from one area to another.

To address the geographic dimensions of reindustrialization, the Bank would be authorized to invest in the stock of public industrial development finance institutions established at state, local, or regional levels to serve an urban or rural area of pervasive poverty, unemployment, or economic distress. Federal participation would be limited to 50 percent of the financial resources of such institutions. One of the requirements for such investment would be that the Bank have one or more seats on the board of directors of the public industrial development institution. Priority for federal investment would go to public institutions involved in financing of innovation and expansion of newer, smaller, and more rapidly growing firms experiencing difficulty attracting capital. Priority would also be given to programs involving royalty finance for product development,

16. *Industrial Policy: Hearings Before the Subcomm. on Economic Stabilization of the House Comm. on Banking, Finance, and Urban Affairs*, 98th Cong., 1st Sess. 85 (1984) (Statement of Felix Rohatyn).

17. *Id.*

venture capital pools for companies expected to have modest earnings growth, subordinated debt for long-term loans, and equity participation. There is a strict prohibition in the bill against lending by such banks to attract industry to their localities which amounts to "pirating" companies and jobs from one area to another.

The capitalization of the Bank for Industrial Competitiveness would be authorized at \$8.5 billion to be subscribed by the Secretary of the Treasury over a period of several years. The Bank could issue debt obligations equal to five times that amount. The total capital plus debt obligation proceeds would be \$51 billion. Up to \$8.5 billion of the debt could carry a U.S. full faith and credit guarantee. Additional debt issuances could carry a full faith and credit guarantee subject to approval by the Secretary of the Treasury upon request by the Bank. Up to \$17 billion in private loans could be guaranteed by the Bank with the full faith and credit of the United States. Any loan made or guaranteed by the Bank would have to be repaid in full in thirty years or less. Working capital loans would have to be repaid in five years or less.

The objective of the Bank in making direct loans would be to obtain an appropriate return. Therefore, with the exception mentioned below, a direct loan or a guaranteed loan would have to bear an interest rate not below the average market yield on outstanding marketable obligations of the Bank with comparable remaining periods to maturity. On loan guarantees the Bank would have to collect an annual fee of not less than one-half of one percent. The Bank could also enter into contracts, as part of the provision of financial assistance, to participate in gains of recipients of financial assistance or their security holders. It should be noted that in return for guaranteeing the \$1.2 billion in private loans to the Chrysler Corporation, the U.S. government received warranties to purchase Chrysler stock at a given price per share. After Chrysler had repaid the private loans and regained profitability, the price of Chrysler stock shares rose, and the government sold the warranties back to Chrysler for about \$300 million.

Title III of H.R. 4360 would create a Federal Industrial Mortgage Association to fulfill a secondary market function for industrial mortgages. The Association would be empowered to purchase industrial mortgages from financial institutions and resell them. To be eligible for purchase, the loans would have to be equal to less than 80 percent of the value of the property securing the mortgage, and the seller would have to agree to retain a participation for the life of the loan. The corporation could issue securities collateralized by the mortgages. This would parallel residential mortgage-backed securities which are guaranteed by the Government National Mortgage Association. It would help tap the capital market for industrial improvement and expansion. However, unlike most residential mortgage securities, the industrial mortgage-backed securities would not have the full faith and credit of the United States behind them. The industrial mortgage corporation would have to guarantee the securities or purchase private mortgage insurance.

### *C. Research and Development*

The Advanced Technology Foundation, created under H.R. 4361, would participate with industry in research and the development of the production methods

incorporating basic scientific breakthroughs in manufacturing. The Advanced Technology Foundation would disseminate technological advances and discoveries. It would also help small firms learn to use new technology through a Federal Industrial Extension Service, modeled after the Agricultural Extension Service.

## V. SUPPLEMENTARY MEASURES ARE REQUIRED FOR A SUCCESSFUL INDUSTRIAL POLICY

The enactment of a comprehensive economic policy is not a panacea for the industrial competitiveness problems of the United States. Such a policy is not easy to implement, and supplementary measures are needed if the potential full measure of success is to be achieved.

As Lane Kirkland, President of the AFL-CIO, said when testifying in favor of the Industrial Competitiveness Act on November 16, 1983:

I want to emphasize that industrial policy is not simply a matter of "picking winners." The Japanese don't "pick winners"; they make investments, including participation by the Japan Development Bank, through long-term funding, for a long-term development plan. Such plans often have provision for a negative cash flow in early years, if necessary. This permits the company, after the R & D phases have been completed, to begin operations at an optimum production scale immediately. In that way, with the new technology and economies of scale, the enterprise can achieve the lowest possible cost and go to the world market to compete effectively with rock bottom prices.<sup>18</sup>

In each instance, the most advanced technology will have to be utilized on a scale large enough to realize the optimum production economies. Adequate long-term funding, combined with patient management, will be necessary to maintain production on a large scale.

As previously mentioned, there is a need to overcome the U.S. trading disadvantage arising from an overvaluation of the dollar relative to other currencies. Cognizance of this factor by the Federal Reserve in administering monetary policy, continuing negotiations with other major industrial countries, and periodic coordinated market intervention is necessary. Since the objective of countering inflation in the domestic economy will probably remain paramount, an additional monetary policy tool, such as credit controls, may be necessary to avoid prolonging high U.S. interest rates and dollar overvaluation.

There also is a need to exert influence upon the International Monetary Fund (IMF) to moderate its policies requiring debtor countries under IMF debt restructuring programs to curb imports and expand exports to help pay their debts. Instead of taking this approach, which has harmful repercussions on the United States and other countries, the IMF should be supporting more balanced growth in both borrowing and lending countries.

The deterioration of the infrastructure in the United States—the highways,

18. *Industrial Competitiveness Act, 1983–1984: Hearings on H.R. 4360 Before the Subcomm. on Economic Stabilization of the House Comm. on Banking, Finance and Urban Affairs, 98th Cong., 1st and 2nd Sess. 61 (1983–1984) (Statement of Lane Kirkland, President, AFL-CIO).*

bridges, sewer systems and water supply systems—hampers efficient operation of the economy. Transportation slowdowns, water losses from old mains, and inadequate sewer treatment capacity for industrial expansion all present barriers to increased U.S. productivity. Public investment has to be increased to catch up on the required repairs to and expansion of the public capital facilities which are an essential complement to private industrial capital.

In addition, the U.S. must continue negotiations with European countries and Japan, and with newly developing countries, such as Brazil, Mexico, Republic of Korea (ROK), and Republic of China (ROC), to reduce and, if possible, to eliminate unfair subsidies and trade barriers. These include below-market interest rate financing, selling at below cost in foreign markets, complete exclusion of certain foreign products, and barriers to imports such as prohibitively high tariffs, restrictive quotas, delayed customs examinations, and unnecessarily detailed product specifications.

Assuming that over time all of the foregoing remedies are implemented, a great deal of the competitive disadvantage of American industry will be overcome, particularly in relation to major industrial trading partners. With respect to less developed industrial countries, however, the huge wage gap prevents closure of the competitive pricing gap. In countries such as ROC, ROK, China, Poland, Brazil, and Mexico, wages amount to only a minor fraction of the wages paid for comparable work in the United States.

Continued penetration of the U.S. market by products from such countries will mean a continuing high level of unemployment among American workers and a contraction of the U.S. economy. Not only will American workers producing such products become unemployed, but so will many others. A secondary unemployment effect will result as those directly affected have to cut back on purchase of other goods and services. Also, because the U.S. domestic market is the largest in the world, its contraction would reduce the market for materials and manufactured products from developing countries. As a result they would face economic decline. This was illustrated during the 1981–82 recession. Thus, even if all the industrial policy and supplementary remedies to improve U.S. competitiveness are adopted, it probably will be necessary to adopt protectionist measures against products from countries whose very low wage levels leave an insurmountable remaining price gap.

The U.S. economy was able to grow over the last two centuries because as productivity increased, the increased income was widely distributed in higher wages. Unionization helped this process. Distribution of income, therefore, was such that there was a balance between production and purchasing power, despite periodic interruptions for necessary business cycle adjustments. Now that there is an international economy in which the U.S. plays a central role, it will be necessary to avoid the growth restricting effects of the skewed income distribution that prevails in newly industrializing countries. Often, under a military or communist dictatorship, these countries do not permit income distribution that would support balanced growth. While there may be temporary benefit by capturing part of the U.S. domestic market, as unemployment and contraction of the U.S. economy occurs, there is also a contraction of the major market for their exports. The rebound effects weaken the economies of the developing countries and of the world economy.

The adoption of a comprehensive industrial policy is crucial to the reversal of the long term decline of the American economy. Enactment of the LaFalce bills would establish the necessary machinery for devising and implementing strategies to strengthen American industrial competitiveness. Studies and analyses of industrial sector problems, coordination of related government policies, support for research and development, and financing of comprehensive development plans would strengthen the competitive position of American producers in domestic and world markets. Such a concerted effort, with the participation of business, labor, and government can put the American economy back on the path toward full employment.