imports equaled only 10 percent of the nation's gross national product. But today, up to 70 percent of all U.S. manufactured goods—computers, tractors, and steel—face competition from abroad. And 17 percent of the nation's total industrial and agricultural output is destined for foreign markets.

Classical free-trade doctrine, with its stress on assuring that consumers have access to the cheapest wares in the world, made sense when international competition was muted. But now, contends Heilbroner, free trade costs too many jobs both in the United States and in other industrial nations. The U.S. Steel Corporation, for example, was forced to close 13 mills in 1979–1980 alone, as Japanese, West German, and South Korean companies undercut its prices. Native "high-tech" industry offers little hope for salvation—witness Atari Inc.'s February 1983 decision to move several factories from California to Taiwan.

Eventually, Heilbroner believes, the United States will have to adopt "buffered trade." An America-versus-the-world posture is one possibility, but he believes that it might be better to establish four regional trade areas—a United States region in the Americas, a Japanese bloc in Asia, a European zone embracing Africa and the Near East, and a Soviet sphere encompassing its Eastern European satellites. *Within* each of these blocs, trade would be free, but each bloc would erect tariff and quota barriers against the others.

Most American economists would probably resist such protectionist measures, Heilbroner concedes. But they might change their tune if *their* jobs were threatened by free trade in economists.

Why an Industrial Policy Is Needed

"An Industrial Policy of the Right" by Robert B. Reich, in *The Public Interest* (Fall 1983), 20th & Northampton Sts., Easton, Pa. 18042.

Harvard public policy analyst Robert Reich can't understand why everyone is so earnestly debating whether or not the United States should have an "industrial policy." It already has one, he says.

Some U.S. industries gain far more than others from various provisions of the federal tax code—investment tax credits, depreciation, not to mention special tax breaks. Detroit's *effective* corporate income tax rate is 48 percent, while the electronics industry pays 29 percent, commercial banks two percent.

In 1978 (the last year for which figures are available), Washington picked up 70 percent of the tab for the nation's aircraft research and development (largely courtesy of the Pentagon), but only eight percent of R & D in the automobile industry.

Nations that have overt industrial policies, Reich argues, have generally fared better than the United States: While U.S. industrial output dropped by 8.8 percent in recessionary 1982, Japan suffered only a .3 percent loss, and West Germany bore a 2.7 percent decline. And while American industrial exports increased in absolute terms during the 1970s, the U.S. share of the world market for some vital goods shrank.

Some industrial policy advocates, notably banker Felix Rohatyn, favor aiding America's troubled "smokestack" industries. But others, including Robert Reich, would nurture new industries instead.

U.S. manufacturers sold nearly 40 percent of the world's semiconductors in 1970, but only 22.7 percent in 1980. Their share of the office machinery market—typewriters, calculators, and personal computers—dropped from 38 to 28 percent.

Even the conservative Reagan administration recognizes the need for a real industrial policy, Reich contends, though it is implementing it through the back door. The Pentagon, fearing that the Japanese will shut domestic companies out of new "strategic" technologies, is spending $500 million per year for joint industry-university-government research on advanced computer chips and $250 million on lasers. And Washington has committed $1 billion in federal funds to a five-year effort to build the next generation of "supercomputers" before the Japanese do.

In the United States, Reich argues, "No one picks the winners and losers; they are annointed inadvertently," as a result of lobbying by America's most politically active corporations and trade associations. The national industrial policy agency (modeled on Japan's Ministry of International Trade and Industry) that Reich favors would surely also be influenced by politics, but wouldn't it make more sense, he asks, to rationalize America's industrial policy?

If It Ain't Broke, Don't Fix It

"Industrial Policy: A Dissent" by Charles L. Schultze, in *The Brookings Review* (Fall 1983), 1775 Massachusetts Ave. N.W., Washington, D.C. 20036.

To hear the advocates of "industrial policy" tell it, American industry is a shambles, desperately in need of the wise counsel of government to guide it back to health. Schultze, formerly chairman of Jimmy Carter's Council of Economic Advisers, disagrees.

To be sure, certain industries (steel, autos) have stumbled, but overall employment grew by 24 percent in the United States during the 1970s. The second best performer, with a nine percent increase in jobs,