ECONOMICS, LABOR, & BUSINESS

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, was Japan. The United States, Italy, and Canada were the only Western industrial nations to record an increase (though slight) in *manufacturing* jobs during the decade.

Schultze adds that an attention-grabbing influx of imported cars, TVs, and stereos has obscured more significant trends: U.S. exports of manufactured goods doubled during the 1970s; "high-tech" exports—computers, plastics, and aircraft—exceeded imports by $40 billion in 1979.

Industrial policy's promoters are wrong not only about the United States, Schultze says, but about Japan as well. They attribute Japan's postwar economic "miracle" to deft coordination of industry by Tokyo's Ministry of International Trade and Industry (MITI). But if that is so, Schultze says, MITI has lost its touch: Japan's gross national product grew at a vigorous 9.9 percent annual rate from 1960 to 1973 but has averaged only 3.5 percent since.

In fact, writes Schultze, astute Japanese businessmen can claim most of the credit for their country's success. They had great advantages: a huge pool of personal and business savings (30–35 percent of the Japanese GNP) to invest and, because they were playing "catch-up" with the United States, no need to buy untested manufacturing equipment or develop speculative products. Once Japan caught up during the 1970s, it no longer enjoyed these advantages and growth slowed.

MITI may have helped the Japanese somewhat (though it made some mistakes, such as trying to discourage the Honda company from entering the car business), but an American-style MITI wouldn't work at all, Schultze believes. American government, with its emphasis on fairness rather than efficiency, tends to spread money among all claimants. The U.S. Economic Development Administration, for example, was created in 1965 to revitalize "depressed areas" of the United States: Under EDA rules, 80 percent of the counties in the nation qualify for assistance.

An American MITI would become a giant pork barrel, Schultze fears. "We have enough real problems," he says, "without creating new ones."

OPEC Lives

"The OPEC Multiplier" by Bijan Mossavar-Rahmani, in *Foreign Policy* (Fall 1983), P.O. Box 984, Farmingdale, N.Y. 11737.

The choke-hold that the Organization of Petroleum Exporting Countries (OPEC) once had on the Western industrialized nations has eased since 1980, but it could tighten again.

Mossavar-Rahmani, a former Iranian delegate to OPEC (1977–78) now at Harvard, writes that the oil cartel's fortunes have reached low ebb. Prices dropped from $35 or more per barrel in 1981 to $28 in late 1983. OPEC's output fell 16 percent in 1981, 16.8 percent in 1982, and averaged 16 million barrels per day (MBD) during the first half of 1983, its lowest level since 1966. These declines far exceed the world's largely recession-induced cuts in energy consumption since 1980, which have averaged less than one percent annually.