Forum

ECONOMIC PLANNING IN THE 80'S

Reagan's Hidden 'Industrial Policy'

By ROBERT B. REICH

THE 1984 Presidential campaign buried the idea of "industrial policy." Or did it?

Not long ago, several Democratic Presidential aspirants were talking about industrial policy. Although the precise meaning of the term remained elusive, the general idea was that the Government should be more purposeful in easing the transition out of basic industries like steel and textiles into high-tech businesses.

The argument was that without an explicit industrial policy — encouraging our older industries to reduce outmoded capacity and adapt newer technologies, channeling research and development funds to emerging industries and helping workers retrain — the changes would come slower and be more painful, and in the meantime the United States would have lost out to other nations that had made the transition more smoothly (notably, Japan).

The term "industrial policy" has fallen out of fashion, largely because the Democrats lost the election but also because the economic recovery of 1983 and 1984 suggested that there was no problem to begin with. The idea also went against the ideological drift of the times. The thought that Government should take a role in shifting economic resources smacked of central planning, and conjured up all the forbidden "isms." Anyway, how could the Government competently pick winners and losers? Wouldn't the whole program just end up being another trough at which the special interests fed?

It has taken a concerted effort by Ronald Reagan to rehabilitate the idea of industrial policy. To be sure, the term appears nowhere in his oratory. But his major policies are showing that Government can play an active role in transforming the economy from "sunset" industries to "sunrise." His three-step plan is a more ambitious industrial policy than the Democrats ever dreamed of proposing. Consider:

Robert B. Reich, professor at Harvard University's John F. Kennedy School of Government, was an early advocate of industrial policy. He is most recently co-author of "New Deals: The Chrysler Revival and the American System."

Shrinking basic industry. Standardized goods, such as basic steel, autos, textiles, commodity chemicals and others that rest on mass- or large-batch production are particularly vulnerable to price competition. Thus, the easiest way to reduce their size is to increase their price in world markets — making it difficult for them to export and making it relatively easy for foreign producers to threaten them at home. And the fastest way to increase their price is to raise the value of the dollar by running huge budget deficits. Presto: the industries are forced to contract.

The Reagan plan to shrink America's basic industries has been enormously successful. Since 1981, when the value of the dollar began climbing to unprecedented levels as the budget deficit ballooned, some 2 million jobs have been lost in old-line manufacturing businesses. Steel, autos and others have been forced to reduce domestic capacity, set up operations abroad (or enter into joint ventures with foreign producers) and diversify into specialized niches.

Finishing off basic industry. Once they have been crippled by international trade, it is a relatively small matter to finish off "sunset" industries altogether. This would be accomplished with the passage of a new tax-simplification plan, which as proposed would eliminate any lingering incentives to invest in America's older industrial base.

The Reagan tax-revision proposal would end the investment tax credit, which has been worth approximately $25 billion a year — particularly to older, capital-intensive industries in need of modernization. The proposal also would reduce the pace at which plant and machinery could be depreciated; the present accelerated schedule has resulted in billions of extra dollars being channeled into basic industries. All told, the Reagan tax plan would rescind more than $200 billion of such tax benefits, which have proved critical to "smokestack" America.

Promoting high tech. America's emerging industries — advanced computers, lasers, fiber-optics, new materials, biotechnologies and so on — will benefit both from the lower rates in the new tax proposal and from its retention of the tax credit for research and development.

BUT more important to high tech is President Reagan's military buildup. Since 1981, about $400 billion has been channeled into new weapons — most depending on advanced technologies. This demand for state-of-the-art products has pulled these emerging industries down the "learning curve" to the point where commercial spinoffs are attainable.

Mr. Reagan would like another $400 billion for advanced weapons betwen now and 1990. At the same time, well over 60 percent of all the research and development funds for America's high-technology industries is coming directly from the Pentagon. President Reagan's "Star Wars" proposal would channel an additional $26 billion into these future technologies over the next five years.

Viewed as a whole, Mr. Reagan's budget deficit, tax plan and military buildup comprise an extraordinarily ambitious plan for shifting America's industrial base. This is industrial policy with a vengeance. But because Mr. Reagan is who he is — avowed defender of the free market from the depradations of big government — there are no voices to his right, vigorously denouncing Washington's vulgar intrusion into the temple of the marketplace. As only Richard Nixon could open relations with Peking, so only Ronald Reagan can make economic planning respectable.

But the President's industrial policy may be too ambitious. The collapse of America's basic industries is throwing off far more blue-collar workers than can be reabsorbed into other high-paying jobs, even during the recent years of record growth. What happens at the next downturn?

And our limited supply of scientists and engineers is straining high-tech industries' capacity to meet military needs while staying commercially competitive. What's missing from President Reagan's industrial policy is a plan for helping our work force adapt — through retraining, relocation and education and day care for the kids while the two careers adjust.

The plan is also risky. Such a broad leap from older industries to new carries a danger that the new ones will not be able to sustain our standard of living on their own. Even at best, how many good jobs will high tech deliver? And what happens if the bottom falls out of these fashionable technologies, as seems to be happening to personal computers of late?

A more gradual, responsible industrial policy would not force us to move so convulsively from "smokestack" to high tech but would help put high technologies into our older industries — and simultaneously upgrade workers' skills to handle the new manufacturing processes — to render the entire industrial base more competitive.

Ronald Reagan's industrial policy is a major experiment in economic planning. Ironically, it may yet prove the wisdom of Mr. Reagan's own rhetoric — that it cannot be done, at least not with such a heavy hand. ■

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State Officials Admonished To Aid Their Entrepreneurs

Some Experts Favor Cutting Tax Rates and Easing Regulations

By David S. Broder
Washington Post Staff Writer

MENLO PARK, CALIF.—State officials were told last week that the best thing they can do to guarantee a healthy economic future is to smooth the way for the would-be businessmen around them.

"Governors should make heros out of entrepreneurs," Los Angeles businessman Donald Gevirtz said at a conference here on state economic development strategies. "If they make a technological breakthrough or get 30 percent growth for five years, bring 'em to the statehouse and give 'em a medal."

Forget about chasing General Motors Corp.'s Saturn project, economists told the state officials, referring to the competition to land the big auto company's newest operation. Don't get into bidding wars for high-tech plants. It's far better to cut tax rates and simplify licensing and regulatory systems to reduce the "barriers" to aspiring businessmen and risk-taking investors, they were told.

The advice was greeted with a mixture of skepticism and enthusiasm from the 140 state government officials who attended the symposium on "development policy in an era of innovation and change."

The project, financed by a Commerce Department grant, was a joint effort of the Council of State Planning Agencies (CSPA) and SRI International, a consulting group headquartered here.

The officials from 27 states, the province of Ontario, and West Germany came here hoping for tips on ways to promote new jobs—a growing preoccupation of state and local governments in this era of declining factory and farm employment.

The message they heard had clear echos of the Reagan administration's supply-side economic philosophy. But it challenged much of the conventional wisdom on development strategies.

On the first evening, economic consultant Roger Vaughan told them that they should shift their focus from the creation of jobs to the creation of wealth—and realize that the entrepreneur who starts a new business is the key to the economic future of their states.

In the handbook Vaughan and his partner, Robert Pollard, wrote with CSPA project director Barbara Dyer for the conference, they said states should worry less about their unemployment statistics than the rate of new business formations. Half the jobs created each year, they said, come from self-employment or the formation of new businesses.

A parade of speakers cast doubt on some of the most popular economic development schemes—including recruiting out-of-state companies by granting tax concessions or competing with multimillion-dollar incentive packages to be the site of something like GM's Saturn facilities.

Far better, they said, to be sure that the tax system rewards risk-takers who start new companies and that regulations affecting them and their investors make it easy for them to expand.

The conference keynote speakers said there is a role for government investments in education, training and public works. But even there, they recommended entrepreneurial approaches. Force schools and colleges to compete, Vaughan said, by giving vouchers to would-be students and letting them shop in the education marketplace.

The strong emphasis on a free-market approach to job-creation was endorsed by the governor who helped put the conference together, New Hampshire Republican John H. Sununu.

Sununu, who started his own engineering company in college and had 130 employees by the time he graduated, told the conferees that states "are just papering over their problems" if they don't "clean out the negatives" in their tax and regulatory systems that inhibit formation of new businesses.

Arizona Gov. Bruce E. Babbitt (D), the cosponsor of the session, expressed general support for the entrepreneurial approach but said that it "leaves us with the excruciating task of dealing with the losers and those displaced" by economic change.

Assistant Secretary of Commerce Bruce D. Merrifield, said the Reagan administration's policies had helped create "a historically unprecedented climate for entrepreneurship" and urged the state officials to remember that "when government gets into the picture, it messes it up."

But others warned that the entrepreneurial strategy was no panacea for either rapidly growing states or those with declining older industries. Beth S. Jarman, executive director of the Arizona Department of Commerce, said that selling Babbitt's program for spurring new business "is the toughest political job I've ever done . . . . It's very difficult to build an entrepreneurial constituency, because they don't want to join anything," she said.

George D. Oriston, a Nevada economic development official, said the emphasis on entrepreneurship "leaves me empty . . . . Our state is going for quality of growth, and there are a lot of new firms we're going to turn down."

Jack Russell, a Michigan official, said conferees were "too easily seduced" by the notion of thousands of new businesses springing up and said his state could ignore the future of the Big Three auto companies only at its peril.

Robert Benko, an aide to Pennsylvania Gov. Richard L. Thornburgh (R), said, "This conference has persuaded me that entrepreneurs have become another interest group."

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rather than S. 866, which is the bill introduced in the Senate at the request of the Administration.

Access To Libraries

IPO also strongly supported a provision in the House-passed bill prohibiting the Office from charging the public to inspect records in the public patent and trademark search libraries. The Office earlier had proposed fees of at least $40 an hour for members of the public to search trademark records in automated form. At the same time the Office proposed to eliminate the paper trademark files. Officials said that eventually even higher fees would be instituted in the patent search library, and all paper patent files would be eliminated.

Banner testified, "Unfortunately the Office is taking automation of the search files as an excuse to charge the public for access to information in the patent and trademark search libraries...." He noted that these records have been available free of charge since the beginning of the Federal patent system in 1790 and the Federal trademark system in 1870. During the Senate hearing Chairman Mathias stated he could think of no direct precedent anywhere in the government for the Office's plan for charging the public for access to official records.

Automation

The authorization bill was amended in the House in response to an April 1985 report by the General Accounting Office entitled "Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operations." GAO found that in attempting to automate its trademark operations, the Patent and Trademark Office failed to (1) thoroughly analyze user needs, (2) adequately assess the cost-effectiveness of its systems, (3) properly manage three exchange agreement contracts, or (4) fully test one of its systems before accepting it from the contractor.

While IPO did not testify on everything in the GAO report, IPO did oppose the exchange agreement contracts. IPO condemned the policy of entering exchange agreements with private companies restricting access by the public to Patent and Trademark Office records. According to IPO's statement, "such agreements amount to giving private companies monopoly rights in the dissemination of public information."

Rep. Mike DeWine (R-OH) questions witnesses at House Authorization hearing.

As passed by the House, H.R. 2434 includes provisions prohibiting fee revenue from being used for automatic data processing equipment or services and prohibiting the Office from using exchange agreements to obtain items or services relating to automatic data processing. IPO testified in favor of these provisions during the Senate hearing.

Outlook For Bill

At the beginning of the August Congressional recess, the Senate Judiciary Subcommittee was considering the House-passed bill in light of testimony presented at the Senate hearing. Confusion existed over the effect of the bill on the Office's automation projects. Patent and Trademark Office officials claimed the bill could seriously disrupt funding for automation. IPO maintained, however, that the bill would not have any major effect on the amount of money available for automation. With one small exception, the Office's budget contained enough public funds to cover all of the items, including automation programs, that are earmarked by H.R. 2434 for support by public funding.

After funding for the PTO is authorized, funds must be appropriated in an appropriations act. It was unclear in early August whether the Appropriations Committees will be willing to appropriate the extra money authorized by H.R. 2434 if the bill passes the Senate and becomes law.

Copies of IPO's testimony may be obtained from the IPO office.

IPO Urges Rewrite of Federal Labs Bills

IPO has recommended modifying or scrapping portions of three bills which have been introduced in Congress to encourage Federal laboratories to promote commercialization of inventions made by government employees. IPO's recommendations were made in a statement filed with a subcommittee of the House Science and Technology committee chaired by Rep. Doug Walgren (D-PA).

The bills as introduced would give Federal employee inventors at least 15 percent of the royalties when government-owned inventions are licensed to the private sector. IPO expressed strong opposition to the royalty sharing requirement. IPO said experience in the private sector shows inflexible royalty sharing schemes impair productivity in research labs. IPO believes the legislation would impair productivity in Federal laboratories as well.

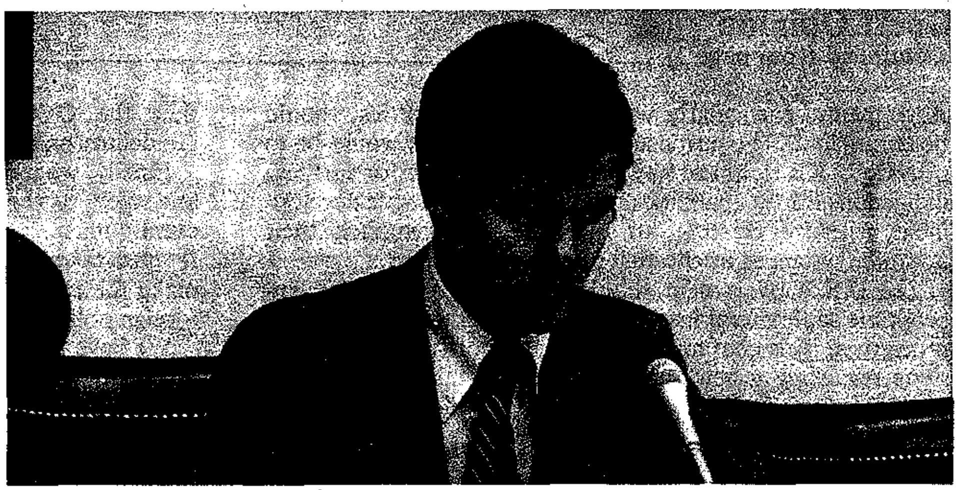
IPO believes it is a mistake to forge a rigid link between commercial success of inventions and compensation for inventors. Managers need discretion to decide whether to pay bonuses to inventors. Often the success of an invention depends upon the creative efforts of many other individuals besides inventors—for example, research directors, production engineers, and marketing personnel.

IPO also expressed concern that enactment of the proposed legislation would be viewed as a precedent justifying federal legislation covering private sector employees. American industry strongly opposes any legislation which would have the Federal government tell private companies how to compensate their inventors.

IPO emphasized that it supports the basic objective of the legislation of encouraging Federal laboratories to enter cooperative research and development arrangements with state and local governments, universities, and private companies. IPO's statement said, "It is important for the laboratories to have adequate authority to enter into cooperative research and development arrangements with other organizations...."

One of the bills pending in the House is H.R. 695, the "Federal Laboratory Technology Utilization Act of 1985", sponsored by House Minority Leader Bob Michel. An identical bill, S. 65, has been introduced in the Senate by Majority Leader Bob Dole. A somewhat different bill, H.R. 1572, has been proposed by Rep. Stan Lundine (D-NY).

According to the drafters of the royalty-sharing provision, government employees must be given a "piece of the action" in order to provide incentives for them to cooperate with the managers of Federal laboratories in promoting commercialization. IPO noted, however, that managers in the Federal government already have authority to give cash awards up to $25,000 to government inventors. Some agencies, including NASA, have broader discretionary authority to reward not only inventors but other employees for scientific or technical contributions. IPO suggested that if government employees need more financial incentives, Congress should consider legislation similar to the NASA Act.



Rep. Doug Walgren (D-PA).

IPO also commented on two other provisions which are in H.R. 695 and S. 65, but not H.R. 1572. One provision gives government employees an exemption from key portions of the Federal conflict of interest laws. IPO said, "We can see no reason for exempting inventors from the conflict of interest rules which apply to other government employees."

The other provision gives government employees 100 percent ownership of inventions in certain situations where they cannot obtain ownership under Executive Order 10,096, which governs ownership today. According to IPO, the bills would give government employees complete ownership of inventions made entirely at taxpayer expense even when the inventions have immediate commercial value, if agencies do not file patent applications.

Congressman Walgren's subcommittee is expected to mark up the legislation in the fall.

Quigg Nominated For Commissioner of Patents & Trademarks

Donald J. Quigg has been nominated by President Reagan to be the next U.S. Commissioner of Patents and Trademarks. The nomination was sent to the Senate on July 26.

Quigg has been Deputy Commissioner at the Patent and Trademark Office since 1981. He has been serving as acting Commissioner since Gerald J. Mossinghoff resigned in January 1985 to become president of the Pharmaceutical Manufacturers Association.

Before Quigg came to Washington he was chief patent counsel for Phillips Petroleum Company in Bartlesville, Oklahoma. He began his career with Phillips in 1946.

During Quigg's tenture as chief patent counsel at Phillips, the company obtained the most patents of any company in the petroleum industry. In one three year period, the licensing income received by Phillips exceeded the company's research and development expenditures.

Commissioner-designate Quigg.

Quigg received the Silver Star as a member of the U.S. Army field artillery during World War II. He holds a Bachelor of Science Degree in Business Administration from the University of Oklahoma and a Juris Doctor from the University of Missouri.

Quigg is a former member of IPO's Board of Directors. He was also active in several other associations concerned with patent and legal matters.

His Senate confirmation hearing is expected to be held in September.