U.S. Competitiveness: A Campaign Code Word

Can It Spark Offensive on Complacency?

Fifth of a series

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"Competitiveness," said Secretary of Labor William E. Brock, a longtime student of political fashions, "is the new code word in Washington, and Washington needs code words. It doesn't think in sentences very often."

Brock's comment at a recent conference reflects both the

RUDE AWAKENINGS
THE CHALLENGE OF THE GLOBAL ECONOMY

sexiness of the competitiveness issue and its lack of precision. Substantively, the issue is one of the most complex. But talking to voters such as those The Washington Post interviewed this week in Knoxville, Tenn., it comes down to two very simple, basic, human questions:

- What kind of jobs will there be for our children here, where we live?
- What is the chance of maintaining the American standard of living for that next generation?

The fear that gnawed at many Americans in those living-room interviews is that the Land of Opportunity is becoming a Nation of Reduced Expectations and Limited Options, because of its inability to meet the challenge of economic competition.

The shock effect of the trade deficits of the last few years has been compared with that of the Soviets' launching of Sputnik in the late 1950s. The question is whether a national effort to end what is perceived as economic-scientific-educational "complacency" will result.

A response is visible in many local communities and a growing number of states. Many would

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welcome seeing the next president act to push such programs to the national level, but there is a risk of government once again promising more than it can deliver.

Alice Rivlin, the Brookings Institution economist and former director of the Congressional Budget Office, argues that "competitiveness is the wrong word," because it implies that through some strategem Americans can reassert economic supremacy in the world. "There's no way to recreate the advantages the United States had at the end of World War II," she said.

"For the future, 'winning' means advancing together through expanded trade with other major countries, and realizing that we can't always be the leader, but we don't always want to be the follower."

At the other end of the political spectrum, Heritage Foundation president Edwin J. Feulner Jr., asked, "Who can be against competitiveness? It's a meaningless word."

Maybe, but in the political realm it is thought to have a potency which encourages possessiveness. "If there's one issue I'd like to have royalties on in the next 18 months," said Democratic pollster Harrison Hickman, "it would be competitiveness."

Robert Teeter, whose surveys are used by many Republicans including Vice President Bush, remarks, "It may not be a red-hot issue right now, but it could be at any moment, especially if the economy turns down. And the candidates and parties want to be sure they don't get caught on the back of the wave."

That may explain why, when the Congressional Caucus on Competitiveness announced it was open for business at the start of the 100th Congress last January, more than 190 House and Senate members signed up.

Charles McMillion, the policy director of the caucus' support group, the Congressional Economic Leadership Institute, identified through a computer search more than 5,000 "competitiveness bills" introduced in the last Congress. "And that," he adds, "was before it got hot."

'A Sense That We Are Falling Behind'

"Among the voters we interview," said Democratic pollster Geoff Garin, "there is an increasing tendency to think of the economy in global terms . . . and a sense that we are falling behind. There is very widespread resentment about unfair restrictions [on American goods] by other countries. But Americans are also saying that we could have done better as a country, we should have done better, and we better do it now. And they're ready for someone to call America to a higher standard."

That call—in varying notes—is being sounded by almost all the prospective 1988 presidential candidates. And it is a theme of the closing phase of the Reagan administration.

In February, just before the Tower commission issued its critical report on the Iran affair, the president sent Congress a bulky package of competitiveness proposals, involving 13 separate bills and amendments to seven other existing pieces of legislation.

President Reagan, who has emphasized market forces as the main instrument for economic progress, went further in this set of measures than ever before in defining a role for the federal government in education and training, in basic research and in remedying predatory trade practices by other nations. The Democratic cochairmen of the Competitiveness Caucus, Rep. Buddy MacKay (Fla.) and Sen. Max Baucus (Mont.), welcomed the president's initiative but said it could only be the starting point for a long-term agenda.

"Not sufficiently aggressive," MacKay said. "Weak tea," Baucus agreed.

Many of the Democratic presidential hopefuls are vying to show themselves tougher than their rivals in the trade legislation debate which is central to the competitiveness issue.

The front-runner, former senator Gary Hart of Colorado, early on chose to define himself as a critic of "the new protectionism" that he said some of his fellow-partisans were offering as "snake oil medicine" for curing trade imbalances. Import restraints, he warned in a speech last year, "enshrine U.S. industrial weakness, sanction inefficiency and concede the superiority of our competition . . . . The new protectionism is the new economic defeatism and isolationism . . . ."

Hart advocated retaliatory measures only against specific, proven violations of international trade rules and cautioned that "if we could somehow wave a wand and abolish all the illegal trade barriers, the trade deficit would only fall about 10 percent." An overvalued dollar and uncompetitive industries are far more fundamental problems, he said.

Competitiveness A Complex Issue On 1988 Agenda

Protectionism and Wooing Labor

Hart's position has left his rivals in the Democratic race both room and incentive to take positions closer to that of its largest allied interest group, organized labor, particularly the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), which has argued for years that foreign governments and foreign businesses are raiding U.S. markets and stealing U.S. jobs.

Massachusetts Gov. Michael S. Dukakis (D), whose state is the textbook model other governors cite for their own efforts at job-producing economic development strategies, shares Hart's skepticism about protectionist measures, and even argues that the oil-import fee Hart advocates is "as protectionist as you can get."

But in recent months, the other second-tier candidates—each hoping to establish himself as Hart's main rival—have almost leapfrogged each other in finding rhetoric and proposals close to the AFL-CIO position.

Rep. Richard A. Gephardt (D-Mo.) has taken advantage of his post on the House Ways and Means Committee to sponsor labor's favorite trade provision, a proposal that would levy stiff penalties on goods from nations such as Japan that fail to reduce their trade surpluses with the United States by a prescribed amount. In his announcement speech, Gephardt said he was not willing to "rely on the untender mercies of our trading partners," and said he would make U.S. military assistance conditional on lessened competition from such countries as South Korea.

Another second-tier challenger, former Arizona governor Bruce Babbitt, has gone a step farther. When he declared, Babbitt said he would "tear up all the complicated [trade] agreements" negotiated in the past and require each nation to balance its trade accounts—or else. If a nation failed to eliminate one-third of its trade surplus with the United States each year, it would face tariffs on its exports rising from 33 percent to 100 percent in three years.

Jesse L. Jackson, planning a second assault on the Democratic nomination, spotted another danger in letting "foreign goods enter our markets without many restrictions." The profits from those sales, he said in a January speech, let foreign firms buy or build plants in the United States, and "they have shown that they have little respect for the rights won by blacks, Hispanics and other minorities during the long civil rights struggles of the 1960s and the union organizing campaigns of the 1930s. They want to transform American society into a controlled society . . . ."

And Sen. Joseph R. Biden Jr. (D-Del.), expected soon to enter the field, told a recent meeting of AFL-CIO leaders that he was "not satisfied just to 'compete.' If you acknowledge that you have to become competitive, you've already acknowledged that you are losing . . . . It says your goal is equity, your goal is parity, your goal is to be as good as the other guy . . . . The Japanese, the Europeans, the Koreans—they don't want to compete; they want to beat our brains out . . . . I don't want to 'compete;' I want to win, flat-out win."

Watching the Democrats try to outdo each other, Competitiveness Caucus cochairman Baucus wryly remarked, "You do get a sense that organized labor has a large role in organizing the Iowa caucuses."

Republicans' Free-Trade Debate

The issue has been less debated among Republicans. Their leading presidential prospects all have warned about protectionism in trade policy as a threat to national prosperity. Vice President Bush told a Canadian audience last year, "We are trying as hard as we can to derail the protectionist juggernaut now sweeping through the United States Congress . . . . Our goal is to knock down trade barriers, not build them up. We stand for free, and yes, fair trade."

The same stance has been taken by former secretary of state Alexander M. Haig Jr. Citing his experience as a business executive, Haig argues that reducing the federal budget deficit and opening the channels of international trade will be far more useful than any retaliatory threats in improving America's competitive position.

Bush's leading rival in the early polls, Sen. Robert J. Dole (R-Kan.), helped block the enactment of the House-passed, Democratic-and-labor-backed trade bill last year by keeping it off the Senate calendar. But Dole has played a subtle role, leading congressional delegations to Japan to warn its officials of retaliation if their markets were not opened to American goods and services. Setting himself up for a bargaining role, this year he has sponsored both the administration "competitiveness" package, with its mild trade bill, and a stiffer trade bill drafted by Sens. Lloyd Bentsen (D-Tex.) and John C. Danforth (R-Mo.).

Dole's less-than-doctrinaire position has been criticized by another contender, former Delaware governor Pierre S. (Pete) du Pont IV. In an article last year for Policy Review, a publication of the Heritage Foundation, du Pont accused Dole of "using mystical buzzwords such as 'fair trade' and 'level playing field' to cloak his intentions."

Du Pont demanded: "Why doesn't someone stand up and say that even if the Japanese market were totally open to American goods, the resulting increase in our exports (less than $10 billion) would hardly put a dent in our trade deficit . . . ? Why doesn't someone point out that if the United States were to level its playing field, too (by repealing the protection on textiles, sugar, steel, etc.), the trade deficit might very well get worse, not better? Hasn't Bob Dole—a Republican leader—learned the Smoot-Hawley lesson, or the Mondale lesson of 1984, that pandering to special interests is a recipe for political disaster?"

Du Pont's program is to "reduce worldwide barriers to trade" and make the United States more competitive, primarily, he said, by continuing to cut income taxes and trimming payroll taxes.

Sharing the free-trade end of the Republican spectrum with du Pont is Rep. Jack Kemp of New York. In several speeches, Kemp has ridiculed the "industrial policy" proposals Hart and other Democrats have offered for targeting public and private investments to selected industries facing tough international competition.

"This is corporate welfare," Kemp complained. "The fund would quickly . . . subsidize failure and inefficiency. What a national industrial policy really means is constant collusion between big business and big government."

In the trade area, Kemp in February introduced with Sen. Phil Gramm (R-Tex.) a measure that he called an antidote to the prescriptions of both the "neo-protectionists" and the "wimpy free-traders," a bill "designed to force world-wide competition to lower trade walls, not raise them."

A key provision would permit the president to negotiate bilateral or multilateral free trade zones, on a reciprocal basis, with Canada, Mexico and the Caribbean basin, thus, he said, "making subsidies and protectionism . . . very expensive for Europe and Asia."

As a bar to protectionist bills, Kemp would require that "consumer impact statements" be part of any trade legislation coming before Congress—presumably to demonstrate how it raises prices for domestic buyers.

A Muddle of Public Opinion

Public opinion is less firm than the emotional rhetoric of trade and competitiveness debate would lead one to suppose.

In a survey 18 months ago, The Washington Post and ABC News found respondents split almost evenly—49 to 43 percent—for the proposition that the federal government should try to preserve American jobs by imposing taxes and limits on foreign imports, even if that meant higher consumer prices. But by a 55-42 percent margin, they rejected the "Buy American" theory, saying they should not be expected to pick U.S.-made products over foreign-made products of higher quality.

When it came to explaining the trade deficit, 64 percent of those polled mentioned the higher wages and benefits of American workers, 61 percent cited foreign restrictions on the entry of American goods, 60 percent mentioned the budget deficit and 57 percent the high valuation the dollar then had.

A CBS News-New York Times poll last April found 53 percent of those surveyed believed Japanese restrictions on imported American goods were unfair, but a nearly identical 50 percent said Japanese workers are harder workers than their American counterparts.

The most recent survey, taken in January by the Roper Organization for U.S. News and World Report, found price and wage differentials between the United States and foreign countries cited far more often as the underlying reasons for the trade deficits than restrictive practices abroad or quality differences.

Somewhat inconsistently, the most favored solutions, of seven alternatives offered, were to "tighten up our quality control standards," increase research and development funds to improve processes and products and "get much tougher with other nations and force them to open their doors to our products." A relatively narrow 50 to 39 percent majority said the United States should "shut our doors to imports . . . if they are hurting U.S. workers and companies."

The muddle of opinions confirmed the view of Republican pollster Teeter, who has studied public attitudes on the competitiveness issue for several business groups, that "because the issue is so complex, voters have a great deal of uncertainty." Teeter said protectionist sentiment peaked during the 1981-82 recession and could come back to swing "a ton of votes" in the next economic downturn. "Right now," he said, "most voters are saying, 'We have to compete better, and I think we can, but as an individual, I have no idea what I'm supposed to do.'

"I don't think the voters feel they have had much leadership from anybody, and they're hoping to get it from the 1988 election," he said.

Whether they get leadership—or just rhetoric—remains to be seen.

NEXT: Pressures of a new magnitude.

In recent years, many states have forged ahead with "competitiveness" initiatives that could serve as models in the national discussion.

Government aid for promising young companies or struggling older ones, has become commonplace in an array of state efforts. More than two dozen states, for example, have initiated venture capital programs that steer funds to budding entrepreneurs or existing smaller companies.

Connecticut created the first state venture capital firm in 1975. Its legislature has provided more than $27 million in appropriations since then to help companies develop nearly 100 new products.

About a half-dozen states have freed a total of more than $1.5 billion from public employe retirement funds to invest as venture capital. Others have created joint public-private venture capital operations or have devised tax breaks to spur more venturesome investments.

Ohio, New York, Pennsylvania and about a half-dozen other states have been stressing uses by existing industries of the technologies the states are helping to nurture.

"Michigan, for example, is sponsoring institutes to develop robotics for application to its durable goods manufacturing and biotechnology related to its forestry and agriculture industries," a recent Committee for Economic Development report notes.

"Colorado has established the Colorado Advanced Technology Institute to encourage basic and applied research . . . in such fields as advanced materials, microelectronics and telecommunications," it added.

States also have been increasing their effort to help firms sell their wares abroad or attract foreign investors.

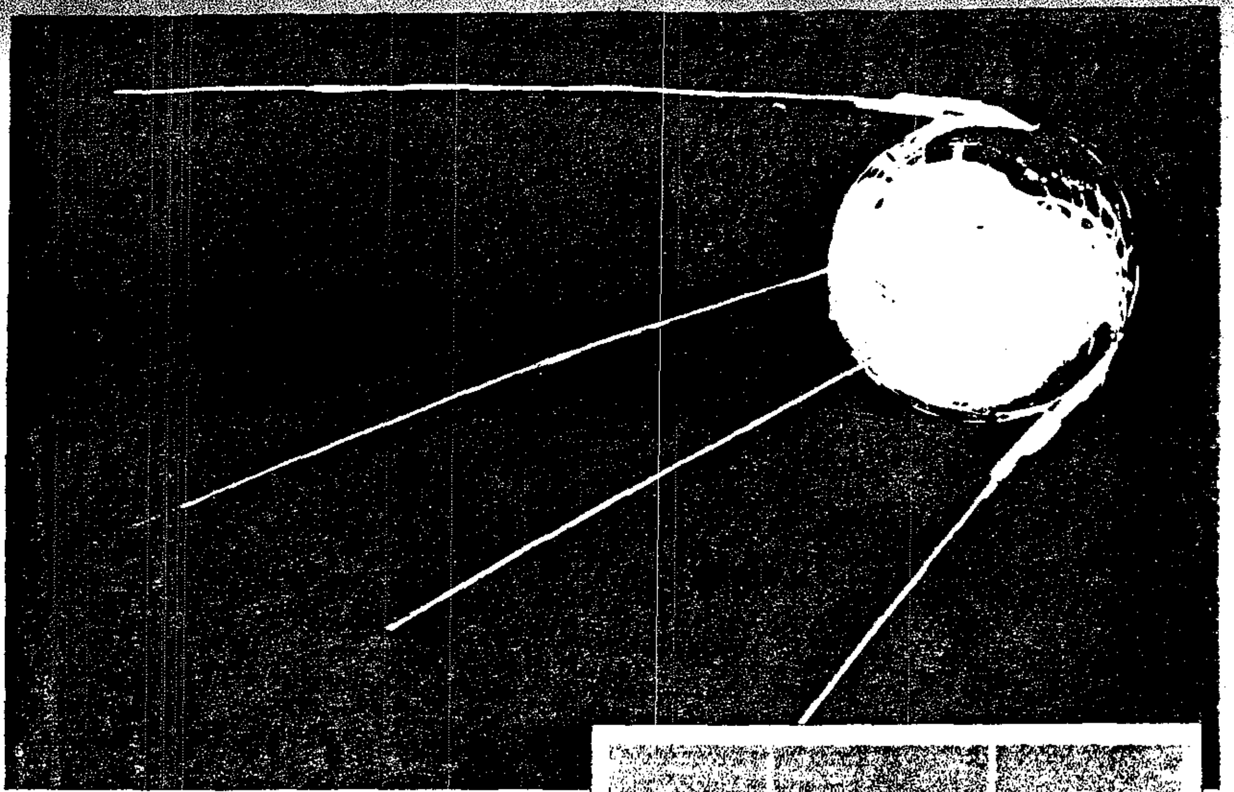
The University of Alabama has become known for aggressively helping to lure foreign investments and joint ventures. The Port Authority of New York and New Jersey has begun a government trading company called XPORT; it helps companies with the design, packaging, pricing, marketing and other needs of selling overseas.

The states have spent hundreds of millions of dollars for increased campus research capacity, technology centers, research parks and related programs, often promoting joint efforts among businesses, universities, labor and government in the process.

There is little reliable knowledge about which state efforts "work," however that is defined.

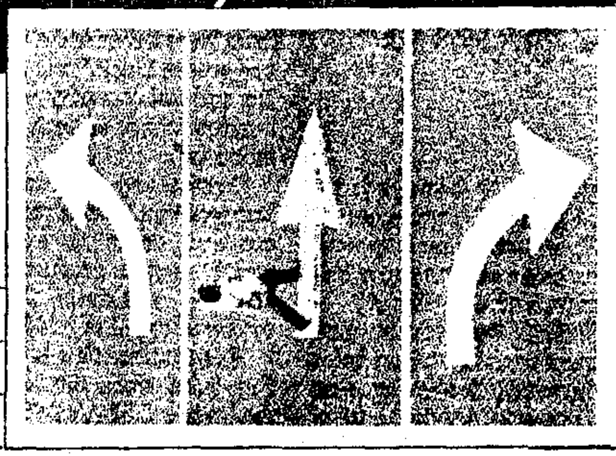
In a study issued last summer, for example, the National Governors' Association found that "hard data documenting job generation results is scant . . . and the result is that currently it is difficult to assess what works best."

—Noel Epstein



BY DUDLEY M. BROOKS—THE WASHINGTON POST

Sputnik I model at the National Air and Space Museum.



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BY FRANK JOHNSTON—THE WASHINGTON POST

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BY JAMES M. THRESHER—THE WASHINGTON POST

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