Newsroom

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Envisioning an Obama Industrial Policy

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I. Pros and Cons

An industrial policy or strategy can be broadly defined as anything the government does to redirect the free market. Anytime a government consciously favors some economic activities over others it is engaging in industrial policymaking. To its supporters, it simply means aiding a specific sector by helping it develop critical technologies and providing fertile conditions for the industries of tomorrow to grow. Its detractors say that government can't pick winners and losers because it can't identify, before the fact, a winning industrial structure. Fear also abounds among naysayers that Washington will choose the politically connected over the technologically deserving. The result of such a skewed process would be a slower pace of change than one would ordinarily expect and an economy that is less efficient and nimble.

What both sides readily acknowledge is that the United States has had a de-facto industrial policy for many years. In some sectors, such as agricultural support, government aid and selected tax breaks have made a mockery of free market forces. On the positive side, government research and development funding led directly to the emergence of the Internet and the development of high-definition television through something called ARPANET.

II. An Early Advocate

One of the earliest advocates of a U.S. industrial policy is former labor secretary Robert Reich. In the early 1980's, he wrote two books on the subject. He now calls for...

> "...an industrial policy which ought to fill in the where markets fail - providing basic research to help spur new technologies and industries, reducing the negative side effects of the market (such as carbon pollution) and easing the adjustment of workers and communities out of older industries that are shrinking toward new ones. Ideally, these three parts of industrial policy would be synchronized so the new technologies and industries address negative side effects while also creating opportunities for communities and workers to gain new employment."

Walter Mondale took a liking to Reich's writings and made the development of an industrial policy a regular part of his stump speech and part of his campaign platform in 1984. His loss to Ronald Reagan that year put the subject on the backburner for decades though presidents of both parties have taken steps to protect and bail out key industries. All of them took action to slow the inevitable decline of the domestic steel industry, and Jimmy Carter extended loans to Chrysler in 1980 to prevent the company's bankruptcy.

Still, the Chrysler bailout represented a small pittance compared to the effective nationalization of a bankrupt General Motors in June. Moreover, many proponents of a proactive industrial policy, including Professor Reich, have been highly critical of President Obama for taking this unprecedented action. For one thing, there is no guarantee that new cars coming off the assembly line will be made in the U.S. Instead of a government takeover, Reich would have preferred wage insurance and retraining programs designed to bring new industries to cities such as Detroit that have been battered by plant closings. This is the same prescription he has been offering since the 1982 publication of "Minding America's Business", co-written with Ira Magaziner. The aim of their book was to suggest ways of easing the pain and smoothing the adjustment and transition of displaced workers.

Clyde Prestowitz, the President of the Economic Strategy Institute, is another advocate of an industrial policy. He says one of its goals--in addition to job creation--should be the reduction of the country's trade deficit. Vacant auto plants should be converted into advanced battery, high-speed rail, windmill, and solar plants. He maintains the lithium-ion battery for the all-electric Chevy Volt shouldn't have to be manufactured in South Korea, but it is. The reason:

rechargeable battery manufacturing left the U.S. long ago. The same can be said of windmills made in Denmark and solar panels made in Germany. In short, it does the United States little good if the building blocks of a green economy are made elsewhere.

III. The Green Revolution

The national effort to achieve energy independence and reduce greenhouse gases must be the driving force of any new industrial policy. The nation's very survival is at stake.

The $789 billion stimulus bill enacted in February includes $24.4 billion in spending to promote energy efficiency, $23 billion for transportation investments including high-speed rail, and $25.3 billion for renewable energy. On the horizon is the Waxman-Markey energy bill which recently passed the House. The centerpiece of the legislation, called the American Clean Energy and Security Act (ACES), is a provision that aims to cut America's production of greenhouse gases by 17% by 2020 through use of a cap and trade system.

The combination of both pieces of legislation could serve as the foundation for bringing total clean-energy investments in the U.S. to approximately $150 billion per year over the next decade. According to a recent report issued by the Political Economy and Research Institute at the University of Massachusetts (Amherst), the **public** spending of the stimulus bill and **private** investment envisioned in the ACES Act would produce a net gain of 1.7 million jobs. A key finding of the study is that clean-energy investing generates about three times more jobs than an equivalent amount of money spent on carbon-based fuels. A second report released by the same institute indicates that shifting from traditional fossil fuel to clean energy will create more job opportunities and improve the standard of living for millions of Americans across all skill and education levels, especially among lower-income families.

A major part of the clean energy bill is investment in clean energy, what New York Times columnist Thomas Friedman calls "energy technology" or ET. Whether the green job means retrofitting buildings, constructing a smart electrical grid, producing wind turbines, or installing solar panels, individuals with only a high school education will have an opportunity to seek promotions and higher wages over time. In the solar energy field alone, jobs will include installing residential and commercial solar energy systems, solar water heater repair, and solar energy roofing and electrical installation and maintenance.

Just how the jobs that grow out of this massive federal spending will stay home and not be exported is a subject of constant debate and worry. The best way to insure against the outsourcing of these jobs is to promote the development of the technologies in the U.S. through public-private partnerships. Robert Pollin, a political economist at the University of Massachusetts, says government should provide loan guarantees for worthwhile private clean energy projects. He calls it the "green investment sector." He would also require TARP recipients to set aside a fixed percentage of their loan portfolios to green investment projects.

To remain competitive, the United States must not just continue to be innovative. It must continue to produce. It is simply a fairy tale to believe that the United States can thrive by simply putting patents on new products. "In reality, there are relatively few high-tech industries where the manufacturing process is not a factor in developing new - especially, radically new - products." The failure to recognize this fact is the reason the personal computer industry is based mainly in Taiwan and China - not just assembly, but design as well. Another example: Nearly every U.S. brand of laptop and cell phone is not only manufactured in Asia but conceived there as well.

IV. A 21st Century Industrial Policy

The Obama Administration's bailout of General Motors and Wall Street has revived the debate about a U.S. industrial policy. Yet both fail as a matter of definition. In fact, they represent the reverse of what an industrial policy should strive to be. First, an industrial policy should not be reactive or ad hoc; rather, it should involve extensive planning. Moreover, government incentives should focus on economic activities that are relatively new and not already present in the domestic economy. The automobile industry can't be classified as a "new" industry in any sense of the word.

And though it is unlikely you will ever hear the phrase uttered by President Obama, his administration's actions speak louder than words: both the stimulus and clean energy bills provide ample funding for the development of alternative energy. In fact, the public funding of private R&D as envisioned in the Waxman-Markey bill provides an excellent template of what an industrial policy should look like moving forward. Still, not all efforts will work out as intended. We should expect successes and failures. In fact, an effective industrial policy shouldn't even attempt to pick winners and losers. Rather, it should figure out a way to cut losses once mistakes are recognized. One way to achieve this goal would be to establish clear benchmarks and criteria to determine the level of success or failure. This is something only government can do.

Manufacturing in America is in serious decline. Over 40,000 factories have closed and more than five million jobs have been lost in the last decade alone. So the revival of manufacturing is of paramount importance. According to a study by the World Bank, the U.S. currently ranks behind every industrial nation except France in the percentage of overall economic activity devoted to manufacturing - 13.9%, down 4 percentage points in a decade. President Obama seems to understand the problem. In a recent interview, he said, "The fight for American manufacturing is the fight for America's future." Another way to put it is that we can't keep shipping good jobs and our manufacturing capacity abroad and expect to rebuild our middle class at home. That has to change.

Clearly, we need an overt industrial policy - a national strategy that guides our infrastructure spending, tax policies, job training and education, to mention just a few areas demanding attention. As the World Bank figures show, our economic competitors have these policies in place, and they are moving ahead of us in the global marketplace.

Plainly, the financial gurus who got us into this mess shouldn't be allowed to frame the upcoming debate, for their first priority will not likely be to create good paying jobs. And more than anything else, an industrial policy for our era must put workers ahead of the interests of Wall Street. Remember: It was the titans of Wall Street who advised corporate chieftains to outsource manufacturing in order to reign in costs and increase short-term profits. We as a nation have paid a great price for that decision. Many years lie ahead to reverse it. But reverse it we must.

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