Overview

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This has been an encouraging conference for two reasons.

First, things got clearer as we went along, which does not always happen in conferences. I do not mean by that that we reached widespread agreement on policy; in fact I might see a bit less consensus than Jerry Jasinowski did. I also do not mean that everything was simplified; this is a field in which true clarity is to see complexity.

The second reason the conference was encouraging is that it saw so many able economists taking seriously some of the issues raised by this broad range of ideas that we call "industrial policy" for short. Paul Krugman said that in writing his paper on targeting he realized how unusual it was for an economist to be taking some of these issues seriously and dealing with them systematically. He is absolutely right, and I think that is deplorable. I hope this conference has persuaded others that there are a number of important issues here worthy of careful criticism by professional economists.

I understand why there has been reluctance on the part of economists to deal with many of these issues. When I first got involved with this subject, three groups of my friends warned me not to waste my time. My old colleagues concerned with trade liberalization said that industrial policy is nothing but a rationalization by which other countries seek to escape from their commitments to remove trade barriers and not to impose new ones. Businessmen told me that industrial policy was the means by which their foreign competitors were given unfair advantages through government help; they were not in favor of industrial policy for the United States because it meant government intervention in their affairs. Then there were the economists who, beguiled by macroeconomics, and by its elegance and its relative success over the years, pointed out that there was no good theory, that the field was extremely messy and highly politicized.

All three groups were right about industrial policy but wrong about the need to study it. The questions raised by industrial policy are extremely interesting. The forces behind industrial policy cannot be escaped. Government officials, including trade people, and businessmen and others are giving far more attention to the subject than ever before. Surely economists will not think it wise to leave such matters to interest groups, politicians, and, for that matter, political scientists — though I must say that these last are making fairly important contributions to our understanding of the subject.

Distaste is no excuse for not studying something. Michael Wachter pointed out that concentrating on job displacement did not mean that he favored unemployment. For my part, I never had an initial obstacle to overcome. I first stumbled on this subject in the late '60s when I was pursuing some ideas about the ways in which U.S. foreign economic policy and the machinery for international economic cooperation did not appear to be keeping pace with changes in the world economy. In a book published in 1972 I said that some of the foreseeable difficulties that were going to make trade cooperation harder in the future than it had been in the past, and that would continue to plague efforts to reach international agreements about investment, were traceable to the kinds of measures that various countries called "industrial policy."[1] When I was able to pursue this further in the late '70s, I found that the situation had gotten worse and wrote a book arguing that unless we found a better way to deal with the clashes of national industrial policies, the whole machinery for international economic cooperation would continue to erode and might well break down.[2] I have seen no reason in the last few years to change that view. When I look ahead it seems to me clear that the situation is almost bound to get worse as national governments operate under the pressures of slow growth, high unemployment, little elbow room for adaptation, and so on. Moreover, it has already become reasonably clear that Americans can no longer treat industrial policy as simply a foreign practice to be censured where it appears abroad and resisted at home as somehow unAmerican.

1. *The United States and the Industrial World.* Praeger, for the Council on Foreign Relations, New York, 1972, pp. 163-72,338.

2. *Industrial Policy as an International Issue* (New York), McGraw-Hill for the 1980s Project/Council on Foreign Relations, 1980, 350 pp.

We can no more reasonably expect industrial policy to disappear than to get governments out of their economies. To act as if we could would be a new Pogoism of the economists, to recall the term that Jeff Sachs used. (Incidentally, when after some debate as to whether it would be understood, I used the Pogo quote in a paper on the clashes of national industrial policies and their impact on trade cooperation, intended largely for a European audience, I found there was no difficulty about identifying Pogo's thought — though possibly the reference to Commodore Perry was not recognized — but the idea was simply not accepted because there was such confidence that most of the objectives sought by industrial policy were highly desirable, a condition which reminds me to state my concurrence with Robert Lawrence about the rather alarming state of European economic performance and policy thinking in these fields.)

The area of agreement

When I said that things had become clearer as the conference went along, I meant that one could summarize in a fairly few sentences a series of statements about structural change and industrial policy which seemed to represent the thinking of most people who have taken part in the discussion (though perhaps in some cases the ideas were implied more than stated explicitly). At least, this is how I interpret what I have heard:

So far as structural change goes, we are vague. We all know there is a great deal of change, but we are not always clear when it is structural. That word itself is used in a number of different ways. It is questionable how much is to be gained by a general discussion. It almost looks as if one were usually better off defining ad hoc, if that is not a contradiction in terms.[3] Perhaps there is some reluctance in coping with this issue since by some definitions a structural change would almost certainly invalidate some earlier calculations, at least so far as their use in making predictions. My hunch is that there is also a difference in our approach according to whether even quite large changes take place slowly enough to be adapted to quite smoothly or come with a troublesome impact. We are also agreed that it is often

3. For some discussion of this problem, see my paper, "Adapting Economies to Structural Change: the International Aspect," *International Affairs* (London) October 1978, p. 583; and the passages on pp. 6, 7, and 289 (and the sources cited there) of ***Industrial Policy as an International Issue.*** This book also deals with a number of issues touched on in these comments, such as the scope of industrial policy and its relation to macroeconomic policy.

difficult to distinguish the structural from the cyclical, especially where the cycle turns down.

There are also terminological difficulties with industrial policy. I used to begin talks on this subject by saying that you can have had an excellent education in the United States and never have heard the words. More recently I have had to add "until about two years ago, and now you cannot open a newspaper without finding them. The latter situation is probably more confusing than the former." While I sympathize with the frequently expressed view that it would be nice to have a better term, I suspect that no matter what term was adopted, it would soon be subject to the same confusion and abuse that now exists unless it were so narrow that it was no longer a valid description of what we are talking about. For my part I am content to take "industrial policy" as shorthand, which means that when we come down to particular issues or cases we have to restate exactly what it is we are talking about.

This last comment comes close to being one of the principal substantive things that has to be said about this field. Industrial policy comprises many different kinds of activities, quite a few of them contradictory. Some industrial policies resist change, some promote it, some try to ease the adaptation of adjustment to external circumstances by measures that make change politically and socially more acceptable and therefore more likely to take place than otherwise. Consequently one cannot sensibly be for or against industrial policy as such; it is all a question of measures and circumstances. Often industrial policies have an industry or sectoral focus but this is not essential. Productivity, labor mobility, the effect of R&D on national economic performance, and even the incidence of uniform measures affecting taxes, investment, or the environment — all can be looked at under the industrial policy rubric.

Industrial policy is not altogether separate from other kinds of policies. It tends to overlap other major fields, notably foreign trade policy, taxation, and environmental issues. It most decidedly is not a substitute for macroeconomic policy. How their complementarity may be assured raises an important set of issues; there is the interesting possibility that some measures of industrial policy may make future macroeconomic policies more effective than those of recent years. This does not mean that macroeconomic policy and industrial policy are so interconnected that they cannot be distinguished. A simple formula is to say that up to a point macroeconomic policy reasoning says that what is needed is full employment, whereas industrial policy reasoning puts the stress on the kinds of jobs involved.

It has emerged quite clearly that the United States, although it has nothing that could be remotely called a comprehensive or consistent industrial policy, engages in a large number of activities which in other countries would be called industrial policy. Sometimes these have very clear-cut structural or industrial policy purposes — e.g. to protect the steel and textile industry, or to support agriculture. But they often have inadvertent effects — such as the allocation of capital to activities that provide tax shelters — or major spillover effects going beyond the immediate purposes. A fuller understanding of what we do and a clarification of these matters is clearly an important element in industrial policy analysis for the United States. George Eads said in a paper for the Wharton symposium, edited by Michael Wachter and his wife, that some of our main difficulties come from existing government policies.[4] That is certainly true and reminds us that industrial policy measures may require stopping doing things as well as starting them.

The many reasons for worry about how industrial policy would be carried out in the United States and the widespread skepticism as to whether the ends could be achieved by the means being proposed were repeatedly referred to. It is clear that this lesson of experience has to be taken very seriously. One needs to remember, however, that the alternative to poorly handled industrial policies with desirable objectives is not necessarily good policy or inaction. The United States is quite capable of providing selective protection, misdirecting investment, giving unnecessary tax concessions', and reducing its own ability to'adapt to structural change. It also has to be recognized that much of the push for industrial policy — there were references to how many people were seeking some new medicine — comes from the fact that other economic policies are not operating the way they should. It is also true that much of the case for "industrial policy" has been badly made but it does not follow that it therefore can be brushed aside or that simple general statements will suffice as rebuttal.

4. George Eads, "The Political Experience in Allocating Investment: Lessons from the United States and Elsewhere," in M.L. and S.M. Wachter, eds., *Towards a New U.S. Industrial Policy?* University of Pennsylvania Press, 1981, pp. 453-82.

These last remarks might be said to be my editorializing and not quite an accurate summary of the common ground that has emerged. Perhaps that is also true of one more point that I think belongs here. Paul Krugman emphasized the importance of setting forth clear criteria before you judge the merits or potentials of any measure of industrial policy. That is eminently true of individual measures and of whatever collection or approach is being advocated. It sounds obvious but isn't, especially since so much of the groping for an industrial policy for the United States involves quite different objectives on the part of different groups. Later in the Carter administration, when industrial policy became an active issue in the government, one young man who was assigned to write a paper called me up and asked where to start. I said, "Figure out what you want." "Of course," he said, "but . . .". "Not at all 'of course,' " said I. "Start with the objective, and then you will have guidance and criteria for judging the means." After all, the Japanese had it relatively easy; their concern has been to produce a modem industrial economy, and that has meant for most of the period catching up in one form or another. Now that they have arrived at that point, I think the questions of the future direction of Japanese policy are harder to answer.

This seems to me a fair summary of themes that have received general support and little or no contradiction in the discussion. Some of you may say that I could have written that description of industrial policy before coming to the conference. That is true, but I must say that I have drawn satisfaction from the fact that so many able people, once they tackle some of these issues, seem to come out with something like this. I only hope that my description commands the assent of others.

The task of economists

Faced with this situation, what should economists do? Certainly they need to do something more sophisticated than simply saying "no." It is not sufficient to confine the work of economists to macroeconomic policies any more than it would be to abandon them.

There is no **either/or** here. Without doubt, the best contribution that could be made to reducing the risks and difficulties of industrial policy is to get macroeconomic policies right. (I include in this exchange rate matters.) To do this would not only ease the pressures but make it possible to live with some of the costs of bad industrial policy. Most important of all, good general economic policy and growth — as Jerry Jasinowski has emphasized — provide a setting in which many of the aims of industrial policies can be achieved without embarking on measures that may be difficult for the United States to carry out. Anything that increases opportunities helps. However, this is not what economists have been able to do very effectively in recent years, and I cannot say that I have heard sufficient agreement at this conference to suggest that the way ahead is clear. There are majorities and minorities on some major points, and they do not square with all of what is currently being done, but that is something less than what is needed.

A good deal of what economists need to do in a situation in which industrial policy has become a live issue for the United States, in a way that it has not been for many years, is to do what they have always done. One point is to set up ideals of performance. That helps to measure departures from the ideals and to warn about things that move in the wrong direction: But it does not do much good to act as if anything short of the ideal was totally unacceptable. We do not live in that kind of world.

Surely most of the people in this room have at one time or another been parties to arrangements that were logically faulty but practically acceptable. Damage limitation is a very respectable and indeed important part of the contribution that economists and other advisers can make.

As a matter of fact, there is no sharp line between damage limitation and positive influence intended to make industrial policy measures better than they would otherwise be. The starting place for all this is analysis', and here the economists have much strength. They are particularly good at tracing out costs that elude other people and thereby sometimes showing that policies are more likely to produce opposite results than those expected by their advocates (as was shown in several papers for this conference). Moreover, economists can show not only what the ostensibly free lunch costs but who pays for it. Now, the question of who *should* pay for the free lunch is a political or even moral question, but the clarification as to who is paying helps to focus attention on the domestic conflicts of interest that are inherent in almost any measure of industrial policy. This is no news. It is a well-known fact, but it is one that tends to be suppressed in more familiar fields, such as trade policy. Perhaps clear demonstrations can play a useful part in working out industrial policies.

This kind of analysis is a continuing responsibility. Bear in mind what Albert Hirschman said about the unexpected complications, costs, and results of various development issues which, if they were fully known in advance, might have kept people from acting in the first place. As time passes, industrial policy measures — like many other economic measures — may come to operate quite differently from the way they did initially. In thinking about the right posture for economists in these matters, it is important to bear in mind that there are almost always some people who benefit from bad industrial policies (and some economists who favor those policies), so that the tracing out of effects is a matter of considerable importance. It is true that the result may be to set some bad examples and lead others to say "me too," but that is another issue.

The kind of analysis provided by the papers by Lawrence on the sources of structural change (or pressures on the American economy) and Bosworth on capital formation, along with Mansfield's report of his findings on different approaches to R&D, are exactly the sorts of things that are needed. It is useful to show that the United States has done better in the last decade than many people think — and that other countries have not done as well as is sometimes alleged — though "things are bad all over" is not an adequate standard for American policy, as Lawrence Klein and a number of others have pointed out in this conference. Much work on familiar subjects such as taxes, foreign trade, investment, prices, and wages is highly relevant to the industrial policy debate and sometimes only needs small re-orientations to be put in proper perspective. We have to be careful, of course, not to fall into the familiar trap of drawing board conclusions from studies,that have been deliberately kept narrow to be manageable. Similarly, if you focus on one factor and show that "x" is not a sufficient cause for a certain result, that should not justify discarding it entirely .when moving on to study the possibilities of the next factor that might operate in conjunction with it. That would be like Peer Gynt peeling the onion until there is nothing there, or Bishop Berkeley looking only at attributes of the chair and not the thing itself.

Some participants in the conference suggest that some advocates of industrial policy measures were ignorant of economics; others note that the inability of economists to give people assurances about the results of various actions created another kind of ignorance that has fueled some of the industrial policy argument. Closely related, or perhaps a third kind of ignorance, is the fact that there are all sorts of things that we do not know as much about as we would like — or as we used to think we did. Our failure to understandsomething as basic as productivity any better than we do might seem almost a scandal, although it is a tribute to the honesty of the profession that we so clearly confess this. What looked like established connections are sometimes thrown into question when we shift frdm'sustained growth to recession and instability. Even those familiar characters, savings, investment, and taxes, are not always speaking the dialogue that used to be assigned to them, as is shown by Bosworth's paper and some others. Perhaps the time has passed when too many of us would keep reaffirming our belief that the old verities of macroeconomic policy would reassert themselves, but until new relations are verified it is hardly surprising if people should look for answersfinother fields — and think they have found them in the direct action that characterizes many industrial policy proposals.

Maybe thinking is moving along in the right direction. Certainly there were some signs of that in this conference. Economists do better when pushed than when left alone. Still, to deal adequately with industrial policy issues, they will have to study some problems that have not been very popular before. For example; I think there should be a revival of the respectability of studying particular industries, something that has been out of fashion for years. There are all sorts of difficulties with pursuing this course, involving drudgery, data, secrecy, objectivity, and the accumulation of intellectual capital (what does one know if one knows only steel?), But it seems inescapable. Otherwise the only ones who know anything will be the interested parties; that is one of the traps of sector-fociised industrial policies. **A** judgment on what should be done about any major American industry is unlikely to coincide with the views of those in the industry. But it is a fallacy to say, "surely government officials cannot know better." True, as of now; less true if we keep having problem industries and decide that the national interest needs looking after; unnecessary if industrial policies are pursued with the close involvement and advice of businessmen, bankers, users, and others. Is there any good reason why investment bankers and government officials should not be able to walk the same road — up to a point?

The whole question of how industrial policy can sensibly be made in the United States, with its pluralism and multiple jurisdictions, is a daunting one that economists have to worry about but which should not permit them to dismiss some problems as not worth analysis. Not the least of these is the well-known but frequently ignored fact — sometimes ignored because of "data availability" — that within what is called an industry there are all sorts of activities that are not homogeneous, that respond to different stimuli, and that compete with or complement one another (and that can change), so that valid prescriptions can hardly be reached at the level usually pursued in economic analysis.[5] Krugman is right that industry studies often reflect hard work without hard thought, but hard thinking that is clear only because it is sufficiently general to pass over crucial facts is also not enough.

There is a dilemma in this sectoral issue. We have all heard the good arguments as to why it is better to avoid sector-specific policies. But the trouble that forces government action is often focused in one or two industries. And if you advocate general policies, economists, tending to be logical folk who suppose that the term "policy" implies clearcut ends and reasonably plausible means of getting there, soon see that any measures that do not rely on the market point toward "planning" or complete government control. This then becomes an argument for avoiding such measures. One sees traces of this in some of our papers. But in practice, economists know better. They know that governments operate in piecemeal fashion, are rarely altogether consistent or coherent, and are dealing with economies that are a blend of many ingredients, not straightforward projections of clear-cut principles. The usual cliche about pregnancy is irrelevant: it is possible to have a little bit of industrial policy, a little bit of market orientation, some competition, some monopoly, and even some planning. It may not be good, but it is not only possible — it is usual. Perhaps it is not surprising that mixed economies are guided by mixed policies.

A key area that needs emphasis when economists look at industrial policy is the operation of markets (and the study of industries that will help that). For good reasons, most economists like markets and are suspicious of those who would tamper with them. But the tamperers

5. Some examples, which also show that a respectable approach can be made from the outside can be found in the industry studies in John Zysman and Laura Tyson, eds., *American Industry in International Competition* (Ithaca, Cornell Unviersity Press), 1983. For an exceptionally complex case where the complexities appear to be crucial to the diagnosis see Michael Borrus with James Millstein and John Zysman, *Responses to the Japanese Challenge in High Technology,* Berkeley Roundtable on the International Economy, University of California, Berkeley, forthcoming. Corporate strategy and union behavior raise questions which are crucial to industrial policies but cannot be taken up here.

are all around us — they include people and institutions that are part of the market. Economists know this and study imperfect competition, but they are happier with analysis that assumes that market forces work reasonably well. Practitioners of industrial policy include many market tamperers; some would speed the forces, some slow them, some just rig them. But that is not the whole story. Structural policy can also be directed toward removing the obstacles that keep markets from working as they are supposed to. In any case, to play a serious part in the industrial policy debate, we have to come to grips concretely with the imperfections that distort various markets and that seriously affect the public interest, separately or cumulatively. Whether you can then prescribe a public policy to set things right is another matter, but you have to try.

Even the case for not interfering in an imperfect market depends on knowing what is wrong with it. Looking for means of increasing competition can provide common ground for the majority view in economics, and for that part of the industrial policy school which puts its emphasis on the fact that a failure to adapt to changes in the world economy, or to move as fast as other countries do, may be the worst thing a country can do when confronted with the pressures that come from structural change elsewhere.

A related set of issues concerns externalities. There is widespread agreement among economists — repeated at this conference — that externalities warrant some public financing of R&D. The conclusion rests on observation (and reasoning) about the way things work; equal attention to other situations may generate comparable consensus. Where does the comparable argument lead us concerning the environment, safety, and economic and social stability? Even equity can be thought of in these terms, I suspect, since most economic measures do good or bad in this respect. A step in this direction carries us beyond anything I can deal with here. For example, what kind of national accounting is it that does not consider the cleaning of air and water as productive activity — unless it is paid for in a certain way? Are jobs and incomes not parts of the quality of life? We make these problems harder than they need be by speaking of non-economic values even if the results improve economic performance. Thus we help conceal the fact that the premium on efficiency rises the more society wants to devote resources to the pursuit of other values.

I have jotted down quite a long list of subjects that economists can study or approaches that they can take which will make their work highly relevant to the issues raised by what Roger Guffey called at the outset of the conference the industrial policy debate that has already been joined. I can note only a few, in alphabetical order.

In ***agriculture,*** the United States has had a structural policy since at least the '30s. During most of the postwar years most economists — even some agricultural economists — were critical of that policy but increasingly ignored it; they shrugged their shoulders and said that nothing could be done about this costly effort because of "politics." Now it is said by many that the United States is a highly efficient producer whose comparative advantage in farming should be recognized by the world in spite of some heavy subsidies. Has the earlier protection paid off? Is the key the transfer of resources? Is it government research and technical assistance? What does this mean? What has it all cost? Is agricultural policy a model or a warning or an illusion? What does the experience mean about the relevance of economic analysis to public policy?

Anti-trust is clearly central to changing (or not changing) the structures and to arguments about market forces. Do we need global instead of national standards? Should economists have more influence than lawyers?

The defense economy — not just the level of arms expenditure — is another area of experience with sectoral policy that deserves the kind of attention that economists can give it. We know some of the difficulties of military procurement and R&D; can those processes be altered to produce improved economic results?

Development economics is now a respectable branch of the profession; there was once much discussion as to how separate a subject it was. There are a few references in the paper to the relation of development to some measures of industrial policy — mostly by way of warning — but a more imaginative pursuit of the subject is in order. Would it not help to interpret Japanese industrial policy and related measures as development policies?

Energy provides all sorts of illustrations of the American difficulty in dealing with a sectoral problem — and of its international dimensions as well. It is not only how different countries have adapted that needs attention but the difficulties of the policy procedures as well.

Foreign experience with industrial policy, though much talked about, is not too well handled in American discussions. More often than not it is too favorably assessed. And as I have said more than once, there is probably a good bit more bad industrial policy in the world than good, at least if adaptation to structural change is the criterion.

History (economic and including business) ought to be brought into play. How much do we really know about structural change? Do we fully understand how adaptation in the American economy has taken place in the past, how major industries have risen and fallen, what kinds of company policies worked and which failed? If these questions were looked at in the light of current problems (a practice that I know is said to make for bad history but has its uses), I suspect we would have a better basis than we do now for seeing what kinds of governmental measures might help the processes by nudging along the good and resisting the bad. This kind of evidence might have special value in dealing with a range of industrial policies that receive relatively little attention in the papers, i.e., those intended to ease transitions and help both workers and managers either to shift to other activities or to make what they are doing more efficient. Yet another historical analysis that would be of value would be to test the validity of the view that during the "good times" of the '50s and '60s, when there was so much economic change, there was also a series of measures that resisted change and supported inefficiency and the status quo — and that the accumulation of these effects is one source of our more recent difficulties, partly because we no longer have the margin to afford their cost.

Internationalization of business is now extensive enough, and dynamic enough, to require an examination of our assumptions about business behavior (on which much economic policy reasoning rests) and of the effects of national policies, whether they are called "industrial" or "monetary."[6]

The organization of the government for the conduct of economic policy — and not only industrial policy — is of great importance to all these matters. Not only what to do but how to do it has to be discussed. Do we need a Consensus Bureau, as some of the discussions seemed to suggest? Where would we put it? In the Department of Commerce, perhaps as a consolation prize if it does not get STR? Rudy Oswald would not like that. How far can we go with industry-by-industry tripartitism when most problems of adjustment and struc-

6. Richard E. Caves, ***Multinational Enterprise and Economic Analysis,*** Cambridge University Press, 1982, is an admirable synthesis of much work, but he has relatively little to say on public policy. We need parallel work on financial connections that are not covered by the label "multinational enterprise."

ture deeply involve the relation of an industry to the rest of the economy?

Services need more attention than they have had, especially when there are so many ludicrous efforts to find generalizations that cover McDonald's, Citibank, Bechtel, ballet, and bankers.

The list goes on, but my space is limited, and I should say something about the international dimension of industrial policy, if only because it is there that I have done most of my work.

The international dimension

Taken all together, the papers seem to me quite balanced on this matter. They recognize the great increase in the international element in the American economy but do not exaggerate the impact of import competition in causing problems for some basic American industries such as steel and automobiles.[7] But the international issue has to be pushed somewhat further because I think we have not fully absorbed into our thinking the implication of the doubling of the international ingredient in American economic activities in the '70s. For example, I find it impossible to talk of structural change in the United States except in the framework of global change. Bosworth makes the leap when he points out that if American savings are short, foreigners can provide the wherewithal for investment. (More on international investment would fit with the closer analysis internationalized business that I spoke of above.) There is little or nothing in the papers of the rather provincial attitude, common in Europe, which speaks of excess capacity as the problem without asking whether it makes a difference whether the excess is in obsolete plants in old industrial centers or in new Korean factories.[8]

Richardson's excellent paper raises basic issues that are bound to influence American decisions about industrial policy. The choices are far more difficult than many people seem to think, whether they believe that the main problem is to offset the assistance that foreign

7. In this respect, I think they are in line with much American public opinion which seems to me to have understood for some time that the problems of these two industries could not be blamed pnmarily on foreigners. At least that is true of autos where every American is an expert; steel he is more likely to know about through hearsay, but the hearsay from American business, banking, and journalism has not been favorable to the steel masters for decades.

8. A range of European opinions can be found in Susan Strange and Roger Tooze, ***The International Politics of Surplus Capacity*** (London, George Allen & Unwin), 1981. The first part of my short contribution to that volume tries to explain the difference between American and European approaches to excess capacity. Since I wrote it, some American opinion has moved toward the European standard while the Europeans have become even more embattled.

governments give their businesses, or whether they make the kinds of remarks with which economists sometimes like to stir up the laity — saying that if other countries want to give away their substance by dumping or subsidies, we should be happy to be the recipients. Richardson's discussion of the largely unacceptable implications of passivity, the dangers of pursuing frontier justice — though it might work — and the narrowing of choices when others will not play the "convention" game all seem to me very much to the point. So are the suggestions about less than total multilateralism, though these need careful dissection. As I cannot do justice to this paper, let me confine myself to three quick points.

First, international competitiveness may not be the best criterion for American industrial policy, but unless most American production can hold its own in international competition, the difficulties of the economy will increase.[9] The issue is not simply one of exports and imports but of the domestic base, the openness of firing markets, learning curves, the scale of global operations, and the dynamics of industry. No matter what the policy of the United States, American and foreign firms will be influenced by the policies of ***some*** government. As noted above, how American business responds to foreign governments is part of the domestic problem.

Second, as Richardson shows, the action of foreign governments can change the setting in which transactions are carried on and American policy has to be shaped. Something like comparative advantage can sometimes be manufactured by government measures. Therefore, passivity by the United States — which in this case probably means trying to hold the line on trade liberalization and adhering to existing procedures for cooperation — may not be the best policy. This raises the question of fair trade which in the United States translates into the means of offsetting dumping or subsidies or, increasingly and not illogically, other forms of government help to businesses. This is an extremely unsatisfactory area of policy. On the one hand, people have always argued that it was impossible to defend the removal of trade barriers if that simply opened markets to unfair competition; the whole economic rationale of free trade would be lost if the result was not the best allocation of resources. On the other hand, American fair trade laws have long been subject to two fundamental

9. I think this is not incompatible with Lawrence's point that international competitiveness should not be the primary target of industrial policies but rather their contribution to growth and/or jobs (the difference may be important).

and conflicting objections. First, they introduce uncertainty and threaten penalties in ways that make them effective instruments of protection. At the same time, from the point of view of injured domestic producers, they are so clumsy, slow, and uncertain that they do not really prevent damage from unfair competition. Both these objections have substance (at least sometimes); in addition, the effort to apply the laws carefully, consistently, fairly and objectively has led to procedures and practices that focus on facts whose relation to the real world is quite attenuated. This is obvious when one looks at constructed costs of production, but it should all have been clear long ago. Viner's *Dumping,* which came out sixty years ago, made it clear that pricing practices in business — including many kinds of highly rational behavior that were fully competitive and fair — were far too varied and complex to be dealt with in any satisfactory fashion by bureaucratic processes, much less clearcut and simple legislative definitions. Quite often the result of invoking (or threatening to invoke) the fair trade laws is not some precise offsetting action, but an agreement by suppliers to limit quantities or raise prices in ways that frequently seem to help preserve some very imperfect domestic competition. People concerned with the public good ought to dig into these matters, not least because making the fair trade laws more effective and expeditious has become a major objective of a number of business and labor groups whose aim seems to be more effective protection and not just the reduction of red tape.[10]

People concerned with maintaining the ability of the American economy to adapt to structural change in the world economy may have yet another perspective. Even if they operated smoothly and were used only in the most judicious and justified manner, antidumping and countervailing duties could only provide protection against specific forms of unfair competition. Is this enough to insure the optimal performance of the American economy, or should the need for these measures be a signal that something else has to be done? How often can one usefully retest the situation when costs and prices change the situation? How advantageous for the American economy can it be to make it a major aim of public policy to raise import

10. This is the prime objective of TRAC (the Trade Reform Action Coalition) and one of the aims of LICIT (Labor and Industry Coalition for International Trade).

prices?"

Yet another weakness of these laws is that they cannot cope directly with unfair competition in third markets. If, as is generally agreed, global competitiveness is the objective of major firms and industries, other means have to be found to assure fair competition. Existing American trade law gives the government power to act in such cases, but the effect is not only not guaranteed to deal with the real issues, it may set off a series of damaging blows and counter-blows by the United States and other countries. This is the same set of problems that arises when the United States — under Section 301 or by the use of other powers — tries to go beyond antidumping and countervailing duties to deal with government or business practices abroad that are thought to damage American trade. Something like this has to be done, but it is extremely difficult to be sure that the long-run public interest will coincide with the resolution of the immediate issue.

This last danger leads directly to my third comment on Richardson. It concerns the importance of trying to deal with the increasing international difficulties arising from structural change — or, for that matter, old-fashioned trade disputes, neo-mercantilism, or the inevitable clashes of national industrial policies — by improved measures of international cooperation. I believe that this effort ought to be at the forefront of policy. I am also not sanguine as to the results that can be expected in view of the deterioration of international cooperation that has been going on for some time.[12] Any possible or partial success would have considerable implications not only for American trade policy but for what the U.S. could or could not — should or should not — try to do with "industrial policy" or with economic policy more generally. Even more drastic choices would result from the failure to extend the area of international cooperation in these matters — which is the only way to maintain the degree of cooperation that already exists.

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11. The issue exists in a different but related form with regard to pricing and market disruption in the treatment of imports from state trading countries. This is a minor matter in the United States but of more importance in Western Europe, where it is also realted to imports from developing countries.

12. All this is explained more fully in Miriam Camps and William Diebold, *The New Multilateralism*, New York, The Council on Foreign Relations, Inc., 1983.

Conclusions

Sometimes economists write and speak as if they thought that economic optimality was either the normal or the only desirable objective of public policy. They really know better. For one thing, there are conflicting economic ends and conflicting concepts of optimality. For another, everyday experience reminds us that society wants all sorts of things besides the economically most efficient and that among its economic objectives, some are frequently incompatible with others. I first studied economics during the Depression, when it would never have occurred to us to suppose that economic policy — as distinct from economic analysis — could be made without regard to political and social factors, or indeed that it should be. It is just as true today. Defense, ever-broader concepts of national security, personal security, leisure, stability, political cohesion, child welfare, equity of various sorts, and any number of other considerations all go into public policy. Economic analysis that merely contests or even denigrates these objectives — which are not all equally worthy, compatible with one another, or even attainable — has limited uses. The demonstration of costs is a necessary function of economic advice. There is no inevitable hierarchy among these choices. The working out of tradeoffs comes close to being one of the main contributions economics can make. All this is commonplace; perhaps no one disputes it. But I make the point because I hear — not so much in these papers as in some other discussion — a somewhat impatient, almost arrogant tone which suggests that "if it isn't optimal, it isn't good — take it or leave it." That is not what economics is all about or how the study made progress, even in its theory.

Everyone knows these things even though they sometimes act otherwise. By recognizing them, economists improve their chances of influencing policy and need not lose their firm grip on analysis. As I look back over the time I have been aware of these issues, I think most good economists have coped reasonably well with this split personality and have made sense about public policy; trade policy is a case in point. Over most of that time, the influence of economists has also increased. During the last few years there has been a sag for reasons that will not have escaped anyone here. That creates a problem in dealing with the rising pressures for what we are loosely calling industrial policy. The best winning pitch for economists, as I have suggested, is to get macro policy back to where the other tensions can be reasonably resolved and put off, and at the same time to come to grips with the issues and not wave them away.

To do that, economists have to go back a bit to the times when it was taken for granted that the economy was not working well and that fundamentals were in question, as in the New Deal. At the same time, they have to deal realistically with those aspects of the economy that you might like to get rid of but cannot. The choice is not new. About 150 years ago Thomas Love Peacock had one of the characters in ***Crotchet Castle,*** a philosopher, say to another, an economist:

> The moment you admit that one class of things, without any reference to what they respectively cost, is better worth having than another; that a smaller commercial value, with one mode of distribution, is better than a greater commercial value, with another mode of distribution; the whole of that curious fabric of postulates and dogmas, which you call the science of political economy, and which I call ***politicae oeconomiae inscientia,*** tumbles to pieces.

That seemed logical, but it wasn't true. The books tell me that Mr. MacQuedy, to whom this is addressed, is modeled on J.R. McCulloch, but it might as well have been James Mill who worked with Peacock in the India Office, or his son. Remember that it was John Stuart Mill whose development of Bentham's Hedonism into utilitarianism (which underlies most of our economics) involved the introduction of quality. And Peacock apparently liked Bentham better than the Mills. But I believe he was wrong. You may disagree with me, but are you going to quarrel with John Stuart Mill?