The man who thought up "reindustrialization" says simply cutting taxes and red tape won't restore U.S. industry to its old bloom.

Why U.S. industry needs help

By Amitai Etzioni

Is there anything wrong with the economy that a good, business-oriented tax cut wouldn't cure? Who needs "reindustrialization"? If the government has really mucked up the U.S. economy over several decades, won't the mere return of the deflected billions, and the release from regulatory bondage, suffice to make the private sector whole again? Some—but by no means all—of Ronald Reagan's backers seem to think that this is all it would take: Loosen the bonds that bind and Adam Smith would do the rest. I do not agree. The world is not that simple. By themselves, a large tax cut and a capping of government expenditures won't suffice to turn risk-shy executives into entrepreneurs, coddled workers into a committed lot and obsolescent plant equipment into postindustrial, high-technology wonders. American society requires at least a decade of corrective government programs to evolve, promote and, yes, ease the pain of the recovery.

To think this issue through it might help to look at some concrete situations. Take energy, for example. After years of keeping the price of oil artificially low (and thus discriminating against the more market sensitive resources, such as coal), is it enough to decontrol the price of oil? Or do we need to attend to all the bemoaned souls who invested heavily in oil burners, a) as a matter of fairness (after all, public policy caused their loss) and b) out of public interest (to accelerate the transition to the use of coal)? For instance, should we provide utilities a onetime $10 billion weaning grant, to convert to coal?

Similarly, if public financing tilted our whole research and development enterprise (one of our most nationalized industries, about 50% federally funded) toward more "basic" and less applied and developmental work than that of most industrial nations, should we not provide some of our basic researchers with "adjustment assistance," say for two years of applied training, if the government will continue to scale down its intervention in the world of R&D?

One more exercise in the transition to a low-profile government future: Can we simply, suddenly deregulate the savings and loans associations, after they have stuffed themselves with low-return paper in the age of government to case of what they can pay their savers? Or must we help them to weather the transition, perhaps by providing them with some tax benefits?

Beyond questions of equity (i.e., doing right by those who responded to our previous public priorities) and efficiency (adjustment to the brave new world of less government) lies a deeper question: Can we really just release resources to the private sector, or need we guide them a bit, choosing the areas where the manna should fall?

Who is this "we" I am talking about? Is not the whole point of reducing the government to let the market decide, without collective guidance? My answer is that, while we should sweat off any kind of national planning or economic controls, we do need to provide publicly agreed upon incentives to some parts of the private sector versus others.

It is easy to make the case for some such tilting in favor of industries relevant to national security. Few would suggest that the U.S. should rely on Panamanian ships to transport the Marines to a confrontation in the Persian Gulf, or that we should rent transport planes from France to ferry airborne troops to Korea. It is similarly fallacious to suggest that, because we are in an age of missiles and electronic warfare, the nation no longer requires its own steelmaking capacity for tanks, half-tracks and warships; in case of war, we cannot depend exclusively on imported steel. The same holds for developing domestic sources of energy.

Another case for some public guidance might be found in the need to correct the imbalance between consumption and investment. Often the argument is made that our lack of capital and our slowing innovative capacity are due to excessive public consumption, wellanism, bureaucratic waste and regulatory drag. However, a detailed analysis of the costs entailed in shoring up capacity suggests that, even if social benefits were cut back considerably and waste reduced as far as is practical, the economy might well still require, for a transitional period, government measures to rein in private consumption. This would help to free resources for investment in
transportation, discovery of oil and development of alternate energy sources, replacement of obsolete capital goods and adapting existing ones to more energy-efficient technology; turning 3% of GNP to R&D, and trying to keep our schools to turn out reasonably qualified graduates—say, comparable to those of 1950.

You can't achieve all this simply by cutting taxes and red tape. Congress will also have to enact specific measures to encourage corporations to pay out less in dividends and spend more on plant and equipment, encourage individuals to borrow less and save more, encourage young people to go into the coal mines rather than to college. In short, rebuilding America's industrial capacity cannot be achieved by a government policy that is merely passive. There are too many decades of neglect and misdirection to compensate for.

How can this be achieved in a society like ours? First, we must evolve a measure of consensus about our direction, through a grand dialog in the media, with community leaders and national policymakers, of the kind which historically presages such a change of national direction. Aside from providing a basis for public policy, such a consensus directly affects investment plans, career choices, etc. For example, more young people would turn to energy engineering, fewer to comparative literature—not because the latter is less valuable, but because there would be fewer jobs in this line.

Second, we need to adjust our massive public-incentive systems, which will continue to exist even if government is scaled down by 30% in three years and limited to 20% or less of the GNP. For instance, we made investment in residential homes (a consumer product) much more attractive than investment in factories. A person who held an average NYSE stock (i.e., owned a piece of an American corporation) from 1969-79 saw his investment decrease in value by 23%; in contrast, the average residential home appreciated 15% in the same period. He sold both, he would not pay capital gains on the first $100,000 gained in the value of the house [if 55 or older, on one sale per lifetime], but all of the gains on the stock are taxable.

Similarly, we provide loan guarantees to failing companies and municipalities, but not to major renovations of corporations that need a helping hand to restore their competitive status. Wouldn't it have been better to help Chrysler modernize and innovate while it was still solvent rather than waiting to bail it out when it was almost too late? Need we wait for Chrysler to develop in the shipping industry? Does it make sense for the U.S. government to underwrite interest-free (for their study period) loans to students, but not to apprentice coal miners? The government encourages banks to risk billions to bail out the Hunt brothers, but puts pressure on the banks not to invest in companies most in need of venture capital, those with a high debt/equity ratio.

All this does not suggest that the U.S. should introduce a central national bank that will allot credit, or set credit terms, according to some set of priorities formulated by a bunch of government officials, or a government-business-labor committee. However, one must recognize that there are now in place a large number of measures that affect credit terms in favor of consumer products, against producer goods. As the market is freed from these past controls, it might be necessary, for a transitional period at least, to tilt in favor of productive capacity.

Tax cuts and elimination of red tape are both necessary, but alone they will not be enough. In addition, government policy will have to be consciously directed toward encouraging investment at the expense of public and private consumption. This is what reindustrialization is all about.

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A former White House senior advisor and George Washington University professor, Dr. Finkenroth coined the term "reindustrialization" to describe the process of returning U.S. industry to competitive vigor.