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By Amitai Etzioni

Rebuilding our economic foundations

After a generation of overconsumption and underinvestment, the U. S. can learn something from underdeveloped countries that are building modern economies

Developmental economics is the study of the evolution of modern economies in previously underdeveloped countries. Applied to the U. S., it may provide a perspective that is lacking in two new and currently fashionable conceptions of economic policy, supply-side economics and industrial policy. Unlike econometrics, developmental economics is much less mathematical and much more concerned with institutions, values, and motivation. More significantly, while econometrics is highly analytical and a-historical, seeking to understand the relations among abstract variables, developmental economics is largely descriptive and historical. It accounts for the processes that initiate and advance modern economic conditions.

Why should American policymakers and researchers pay more attention to a discipline that cut its teeth on studying the development of countries such as Mexico, Brazil, and Japan? For one thing, because the U. S. may be suffering from a generation of overconsumption and underinvestment, which led to a weakening of its economic foundation, its infrastructure, its capital goods sector, and its human capital. Hence, the U. S. may have to retrace its development in the next decade and shore up the foundations, first laid when it was an undeveloped country.

The U. S., of course, is not an undeveloped country. Nor have its great industries been leveled by a disastrous war, as those of Japan and Germany were when they began rebuilding in 1945. The fact remains that the competitiveness of U. S. industry has declined in relation to that of the rest of the world for the past 15 years. Like the undeveloped countries, the U. S. must think in terms of restructuring and strengthening its economy to achieve the capacity and efficiency it needs. Supply-side economics and industrial policy are two different approaches that have been suggested for dealing with this central problem.

Disputing the supply-siders. While there is no unified body of knowledge that passes as developmental economics, its central ideas do point to an important set of amendments and supplements to supply-side economics and industrial policy. To the first—supply-side economics, which stresses increases in production as the driving force behind economic expansion—it suggests that a mere "black box" approach is not sufficient. It will not suffice to cut government revenues and thus increase private sector resources, trusting that all will be well through processes not better described than "spurring on the private economy." Developmental economics suggests that targeted stimulants are better than across-the-board measures, as long as the targets are not narrowly defined. Thus, if the problems are obsolescent plants, lack of capital, and slowing research and development, then accelerated depreciation, more R&D writeoffs, and lower capital gain rates (excluding real estate) will provide a more effective policy than an across-the-board tax cut. With a simple tax cut, resources released to the private sector might be used primarily to consume more—to buy more imported gasoline, for example—and not to shore up America's productive capacity or productivity.

At the same time, developmental economics avoids the excessive planning and government intervention in the marketplace implied in some of the recent writings about industrial policies by Lester C. Thurow, Gar Alperovitz, and Arnold H. Packer. They seek to identify industries that are future winners and losers in terms of providing exports, jobs, and productivity growth. The winners are to be subsidized and otherwise promoted; the losers are to be helped to find a "sunset." This approach might entail a too-detailed reading of the future, and it puts too much of a burden on the government, or the yet-to-be-formed government-business-labor "investment committees." At least, our record of economic forecasting and national planning is not sufficiently encouraging to make us feel comfortable about leaning heavily in this direction.

A program for the U. S. What would developmental economics prescribe for the U. S. today?

In the infrastructure sector: energy development and conservation (without excessive commitment to any one path); improvement of the means of transportation of commodities (railroads and bridges, for example); larger investment in R&D, especially on the applied side; and improvement in the human capital, particularly seeking to bring vocational training and actual jobs closer together.

On the capital goods side, greater encouragement to invest might be combined with restructuring of the antitrust laws, to focus them more clearly on price fixing and away from industrial cooperation in, say, pollution control and export. Credit, which is now provided at discount to municipal services, students, and for some other spot-selected purposes, might be directed into channels that will provide greater incentives to development and less to consumption for 10 years or so. A reconstruction finance corporation might provide a revolving fund into which obsolescent industries could dip for renovation.

Perhaps as important as the details involved is the overarching vision. Supply-side economics does imply that all will be well in the private sector if only it can be unshackled. The industrial-policy theory implies that collective planning is a viable tool. Developmental economics suggests that a decade or so of shoring up the foundations of industrial America will allow it to provide the necessary resources to serve the foremost national goals: defense, a high standard of living, and greater protection of consumers, workers, and the environment. ■

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