America's Economic Problems

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It is appropriate that this address be included in a series honoring Henry George. He wanted a progressive economy in which all could share. He was concerned with free trade and economic growth, as well as justice in distribution. He eschewed monopoly whether natural or created by government. He favored seeking public revenues from land and other natural resources. And while he advocated public ownership of public utilities, he strongly championed free enterprise in the rest of the economy, and saw a role for trade unions in it. His careful thought and conclusions are admired and have deeply influenced many people, economists and politicians included, in the U.S. and around the world.

Many people are speaking and writing about American economic problems and advocating the adoption of an "Industrial Policy" to help solve them. There are three questions involved here:

What is Industrial Policy?
What are the problems?
What are the proposals?

Industrial Policy

There is much concern and confusion about this term.[1] What does it include? How will it affect me? Will it raise my taxes? Is this socialism? Does it mean more government spending? Will it complicate doing business? Is it an attack on "free enterprise"?

We should recognize at the outset that those who are talking "Industrial Policy" are engaged in the age old quest of economics, its original and central quest, the search for government policy which will increase the well being of the country.

This concept of economics is not a narrow one but a broad one. It is not, to use an ancient term, mere "catallactics," that is the science of exchange and valuation of goods and services, of mere profit and loss[2]. Rather we are concerned with political economy, with the standard of living, the health, happiness, security, and longevity of Americans. It deals with the wealth of nations, our nation.

Initially, it is neither an attack nor a defense of "free enterprise" as this term is properly defined. Its main question is, how can we produce more and better distribute things for and to the American public? It seems very clear from the writings and statements of its advocates that what is envisaged is a modification of federal tax laws and expenditures to allow a largely unchanged set of business institutions to better serve the public interest. Obviously any change in taxes or expenditures would encourage some private business activities and discourage others. The point of the policy would be to make these choices consciously and intelligently.

It is hard to be against such an endeavor, to be against reckoning the consequences of government actions and attempting to do more useful things and fewer harmful things. This should be characterized more as using our heads, using due diligence than as economic planning. But it is planning of a limited sort, the sort we have always had.[3]

And I wish to make this point most emphatically. Free enterprise is a plan. If the elements that make up a plan are a means and an end, that is precisely what our policy of free enterprise is. It is a posture consciously adopted by government, government "of all the people," to produce maximum well-being for all the people. This aim is its justification.

And, if free enterprise is to work, it needs rules and it needs an umpire, and the proper role of government is that of providing these rules and acting as the umpire. If some people are merely for or against regulation, they do not understand the economic system and the role of government within it. On the one hand, the posture which favors extensive regulation assumes some genius and good intentions in government which are not totally supported by history. But on the other hand, the view opposing all

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Tourism

It was noted at the beginning of this study that tourism undoubtedly has an important impact on both the Orange County and Jamaican economies. In estimating this impact in Orange County, the lack of a quarterly time series on tourist levels suggested the use of disposable income in the United States as a proxy for the effect of tourism on relevant sectors of employment. The significance shown in the following equation between U.S. disposable income and the largest employment sector in Orange County (Services) is presumed to exist at least partly because of the hypothesized relationship between tourism and income.

$$(4)\quad \%NSR = \underset{(3.41)\$}{5.06} + \underset{(2.79)\$}{0.30}(\%\$PY-1) + \underset{(2.27)\$}{0.30}(\%\$DY) + \underset{(2.43)\$}{0.30}(\%\$DY-1)$$

Adjusted R–squared = 0.85 S.E. = 1.61

D.W. = 1.44 RHO = 0.85

62 observations 1968:2 to 1983:1 where the notation is consistent with that used in equation (1) and

%NSR = Annual percentage change in the quarterly level of Orange County wage and salary employment.

%$PY = Annual percentage change in the real quarterly level of Orange County personal income.

%$DY = Annual percentage change in the real quarterly level of U.S. disposable income.

In an approach similar to that used in measuring the impact of exports on employment, preliminary tests on the impact of international tourism were recently conducted. The only time series that was found to exist that might be a useful proxy for this demand-related impact was the level of arrivals on international flights at Los Angeles International Airport. The effect of adding this variable to the equation estimating service employment is shown in the following equation:

$$(5)\quad \%NSR = \underset{(3.44)\$}{4.82} + \underset{(2.70)\$}{0.28}(\%\$PY-1) + \underset{(2.53)\$}{0.33}(\%DY) + \underset{(1.72)^{**}}{0.24}(\%DY-1) + \underset{(1.82)^{**}}{0.04}(\%LAX)$$

Adjusted R–squared = 0.83 S.E. = 1.58

D.W. = 1.49 RHO = 0.84

62 observations from 1968:2 to 1983:3 where variables and notation are as defined in equation (4) and

%LAX = Annual percentage change in the number of arrivals on international flights at Los Angeles International Airport.

The result of adding %LAX as a proxy for international tourism only slightly improves upon the results of equation (4). Although the coefficient for %LAX is significant at the .05 level, its explanatory power seems to come mostly at the expense of the explanatory power of lagged disposable income, %$DY-1. A possible reason for this is that some proportion of international arrivals consists of U.S. residents and that proportion would likely be collinear with U.S. disposable income. Nonetheless, the empirical results do not warrant the construction of a block in the Chapman Model to endogenously forecast levels of international arrivals.

Such a block might be warranted in a model of Jamaica if international (including U.S.) arrivals in Jamaica can be disaggregated by country of residence. Since the close relationship between U.S. disposable income and tourism in Orange County may not exist in Jamaica, it would also be difficult to justify the use of exogenously derived estimates of U.S. disposable income to estimate the impact of U.S. tourism in Jamaica. Thus, the importance of finding and endogenously deriving tourist-related time series in Jamaica is obvious.

It was the intent of this study to show that the Chapman Model can be used as the basis or foundation of a Jamaican econometric model. In spite of the many inherent differences that are obvious in comparing Orange County with Jamaica, a careful scrutiny of the two economies suggests that there are many structural similarities. And although data problems could significantly constrain the model's forecasting power, the development of an expanded international block suggests that there is great potential for the development of an econometric model specifically designed to replicate the structure of the Jamaican economy. Such a model would provide a useful tool in evaluating alternative development strategies and economic policies as well as helping to understand the underlying economy of Jamaica.

Footnotes

1. Doti, James, "A Quarterly Econometric Model for an SMSA," in "Frontiers in Business and Economic Research Management," edited by Robert W. Resek and Janet R. Fitch, Association for University and Economic Research, 1983.
2. *Ibid.*
3. "The Chapman College Forecast Update – Quarterly Activity in 1983," *The Chapman College Economic and Business Review,* Vol. 1, No. 2, April, 1983.

regulation hardly understands that the game of business cannot be played without rules to order and define it. Nor does it understand that without the presence of competition, there is no reason for us to condone the game, because we rely on competition to make the system perform in the public interest. This fundamental belief is enshrined in our anti-trust laws which, surely, do not interfere with the operation of the economy, but instead aid its beneficent functioning.

There is a basic antagonism to government, which is fostered by those who want a freer hand in the acquisition of riches for themselves, rather than a necessity imposed by the system, to provide them for others. These others include stockholders, bondholders, landlords, workers and consumers, in other words, the public interest.

We can see this antagonism in synonyms for government action such as "interference," "intervention," "arbitrary action" and the like. The general suggestion that things "be left to the market" implies almost universally that the suggestor, to the detriment of the public interest, is personally doing very well indeed, as things are.[4] These views are truly outrageous when what is being opposed is the government's insistence that consumers be told what it is they are getting in the can, jar, or medicine package, or that streams, groundwater and air not be polluted. So too is opposition to telling people the names and dangers of the chemicals they encounter in their work environment. In such cases the suggestor is insisting on a right to defraud, and even poison, the consumer or the worker. Antagonism to this kind of anti-social self-interest, even though we place reliance for the operation of the economy upon self-interest, is easy to come by and support. But unfortunately, in far too many instances, it is hard to secure governmental corrective action.

Perhaps the public is too ill-informed, too quiet, too trusting, or too defeated in life to make itself heard. And, frequently, it does not use the political process for its own betterment. But when things get bad enough, and long continued high rates of unemployment may make things bad enough, the public may awaken from its torpor and "industrial policy" will become a matter of moment.

But it must have a better name. The term "Industrial Policy" might be misunderstood as being concerned only with industry. It is concerned with industry but only to a limited degree. Its primary concern is to raise the standard of living of the entire public. Perhaps Industrial Policy could be better understood as a way to secure "A Fair Hand in a Fair Game."

This would be appropriate, because one of the areas of emphasis of the proponents of Industrial Policy is upon what economists, perhaps with insensitivity, have called "Human Capital." The proponents are concerned that more and better education and training be provided to the workforce, the worker citizens of the country, for their own and the nation's betterment. Such training is seen as a means of not only easing the problem of youth umemployment, especially black youth unemployment, but as a means of easing the transfer of workers from old and unprofitable industries to new and growing ones. There is general recognition of the fact that we produce too many lawyers and too few engineers, and thus there is considerable support for somehow changing this situation through selective governmental support for education and for research. Many supporters of Industrial Policy feel all government support for education, training and research will make free enterprise work better and our nation will benefit. Its people will live better and be better able to preserve our world position in peace and war.

But you may doubt that we need a more efficient economic system. It is natural and perhaps, even praiseworthy, that we think well of our country. I have no desire to diminish this sentiment which I share. But I do think we can ask "How well are we doing?" As citizens, we may even have a duty to ask this, to compare the U.S. with other countries on the basis of important criteria. Let us examine such data to see what our problems are.

The Problems

In the fourteen years 1960 through 1973, the growth in real production per employed person in the U.S. trailed that of Japan, Italy, West Germany, France, and the U.K. at the rate of 1.8%. Japan's rate was 8.9%, about five times ours. The same comparison in the five years 1974 through 1978 shows the U.S. still in last place with a 0.1% rate as against Japan's 3.2% In this case we have the astonishing ratio of 1 to 32.[5]

While the United States led the world in per capita GNP in 1960, by 1979 nine countries produced more per head than we did. Also France was on a par with us and at least fourteen countries gained substantially on us.[6]

Unemployment rates also yield unfavorable comparisons for the U.S. The U.S. rate of 5.4% for the years 1959 through 1976 exceeded the rates of Italy, the U.K., France, Sweden, Japan, and West Germany. The West German rate was 1.2%. Our employment rate of 6.5% led these countries again from 1977 through the first half of 1980.[7]

And when Americans are unemployed they also fare less well than those in similar straits in other developed countries. One cause of this is that a smaller percentage of Americans qualify for unemployment insurance. Thus only 51% of unemployed Americans in 1974 qualified as against 92% of Sweden's unemployed. The corresponding figures for 1978 are 58% and 90%. In both years our figure was significantly below the percentages for the U.K., Japan, Italy, West Germany, and France. A second cause of the relatively greater hardship borne by the American unemployed worker is that our benefits are lower, sometimes substantially lower than the benefits available to the citizens of these other countries. In 1975 the benefits as a percentage of the average earnings of a four person family stood at 50% in the U.S. and ranged up to 80% in Italy.[8]

It is hard to argue cogently and intelligently that the relatively poor productive performance of our economy is due to excessive spending on social welfare, because as a percentage of GNP, it significantly lags that of other developed countries. In 1977 the U.S. figure was 14.2% as against 33.8% in Sweden, and higher rates than ours are also found in West Germany, the Netherlands, France, and the U.K. Available figures give 17.0% in 1978 for Japan where, in addition, the worker secures many of the benefits normally available through government programs in most other developed countries directly from the employer.[9]

Another comparison, this time regarding benefits for those who have jobs, shows that even working Americans get substantially less in terms of paid vacation than their counterparts in the rest of the developed world. In 1978 the U.S. worker had 17 days of normal vacation and 8 paid holidays, a total of 25 days. Comparable figure for Sweden were 47 to 50, about twice as much, for West Germany 38 to 41, for the Netherlands 38, for France 35 to 38, for Japan 36 and in the U.K. 32.[10]

On some more basic measures of relative wellbeing, we again suffer by comparison. In the mid-70's the life expectancy at birth for American males of 68.7 years ranked 15th in the world, and the 76.5 years for U.S. women as 8th in rank.[11] Even more astounding is our relative infant mortality rate, where we rank 18th with 14.1 deaths per 1000 live births. Sweden had the best record of only 8 deaths per 100 live births. Our relative homicide and pollution levels again are cause for sadness.[12]

When one compares the extremes of income distribution in the U.S. with those of other countries, again we find cause for ruefulness. The lowest 20 percent of our families in terms of their share in after-tax income receive 4.5% of total family income. While this is slightly more than they received in France in the mid-70's, (France's rate was 4.3%), it is less than their share in eight other developed countries, and by today the United States has dropped to last place among O.E.C.D. countries.[13]

If one corrects for changes in prices by reducing all data to constant 1978 dollars, one finds that the lowest family income received by the top 5% of the families rose from $24,570 in 1950, to $44,878 in 1978, while the highest income received by the lowest 20% of the families rose from $4,709 to only $8,720. Thus the gap between rich and poor rose from $19,861 to $36,158.[14]

The cumulative effects of so skewed an income distribution shows up in relative wealth statistics. As best one can judge from incomplete data, the top 2% and the top 1% of wealth holders in the U.S. have a larger share of the larger pie of this country, garnering between 40 and 35% of all private wealth. Their closest competitors for the top 2% was the U.K. at about 27.5%, and for the top 1%, Denmark at 33%.[15]

Let me apologize for this dreary repetition of statistics. I do hope they convey a problem of inadequate growth in total output in this country and a problem in its inadequate sharing. These are the basic problems that the advocates of Industrial Policy seek to ameliorate. By and large they seek to do it by making free enterprise more efficient.[16]

But two important additional sources of desire for an Industrial Policy spring from the very real fact of the lack of competitiveness of U.S. exports and, let us be blunt, always incipient nationalism. The dangers to our long-standing support of free trade and amicable relations with our allies are clear. We may, unfortunately, move toward Industrial Policy for the wrong reasons.[17]

But would the adoption of an Industrial Policy approach be a radical change for America? It would not. Government has always sought to order and direct business and economic activity both in peace and in war. Alexander Hamilton was thinking that in his "Report on Manufacturers." The Homestead Act and the Sherman Act sought to influence economic activity. The provision of corporate charters, the agricultural support programs, support for the merchant marine, airmail postal subsidies, the protection of patents, trademarks, and copyrights and a vast host of other things could also be mentioned as parts of an Industrial Policy. In terms of "interferences" one cannot think of a more fundamental one than the provision of weights and measures, and yet how could we do business without them? The problem is not to *introduce* the idea that the government should affect the economy. The problem is to try to have a coherent and yet flexible approach to the useful relationships that should prevail between the economy and government.[18]

The policies we have at present have grown up willy-nilly. They have been ad hoc reactions to immediate problems. They are often out-of-date and pernicious in their impacts. They have become "vested interests," to use Veblen's famous phrase, rather than encouragements to production and innovation. The regulatees have captured the regulators. This fact is at least some justification for those who distrust all regulation.

Agricultural price supports provide a useful example of programs gone wrong. They were instituted almost fifty years ago in the face of world-wide depression and great suffering by our farmers, but today are a yoke about the economy's neck. For generations now farms have been valued, not on the basis of their inherent productivity and the market prices their products command, but on the basis of their "acreage allotments" and the level of farm price supports. An intelligent I.P. would seek to ease us out of this situation with minimum damage to farmers and the banks holding their loans. But it would have to involve governmental action, since it is an international problem.[19]

Macroeconomic Policy

While much of our attention has been focused on the overall problem of growth, we should also talk about the major concern of government economic policy for many years. This is the problem of stability of income and employment. Obviously these are related matters. It is hard to secure good growth over decades when so often the economy is drifting sideways, or even worse, downwards. But this short-run concern of "demand-management" or "Keynesian" economics may have served unfortunately to obscure long-run concerns. While Keynes quipped that "In the long-run we are all dead" others have taken this too much to heart (surely far more than an intelligent person such as Keynes would have wished). So today we need to assert that in the long run we all may be poor and we may all retire miserably. The recent dimly understood changes in Social Security should be an object lesson for all of us.

Under the Johnson administration we had very definite attempts to improve the performance of the economy. In 1965 I commented on his policies in an article in *The Commercial and Financial Chronicle*[20] under the title "Economic Persuasion, Philosophy and Methods" with the subheading of the letters "A.E.P." Let me quote the first two short paragraphs.

> "The letters "A.E.P." stand for American Economic Persuasion which is something new under the sun. Instead of "persuasion" some more forthright economists might prefer "planning." But this strikes me as inaccurate and, I expect, many of the general public would find it repugnant.
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> "We do have Washington trying very hard to direct the economy, trying to raise its output, endeavoring to reduce its unemployment, seeking to mitigate the extremes of well-being and poverty, hoping to equalize opportunity for rich and poor, black and white. Its weapon, however, is a very personal one – persuasion"

I concluded the piece by pointing out the inconsistencies in the policy, its "inner contradictions" in this way:

> "Another strain lies in anti-trust policy. In some cases it bumps head on into the anti-poverty program. Vigorous anti-trust action would alienate some of the people who are being persuaded to observe the guideposts. (Note: these were standards announced by the Council of Economic Advisors which were intended to limit wage and price increases). This is a dilemma of the first order.
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> "There is immense strain involved in keeping interest rates more or less fixed and promising forever-rising corporate net earnings. Stock prices should soar upward again on this expectation. The recent break in stock prices must obviously reflect the investor's opinion that the whole structure of means and ends is shaky, or that he really doesn't understand the operations of the modern managed, or should we say, persuaded economy.
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> "All the above is offered as an aid to thought. We must recognize what we have if we are to make no changes, if that is what is called for, or to make the right changes at the right time, if that is what is called for. The author's fears are that the structure is altogether too weak, it is too personal, it is too misunderstood, His admiration, however, is evoked at the achievement of the amount of progress we have had. His fear is that with all the same institutions they could mill about hopelessly at cross purposes under another President, and the economy could stagnate."

In all modesty I must admit to my remarkable gift of prophesy as just exemplified. The economy has been stagnating and it has been stagnating for years under several Presidents, both Democratic and Republican. But, to be very serious, the passages I have just read do indicate the dangers of attempting to run the economy on an *ad hoc* basis, on the basis of Administrative fiat without adequate machinery provided and supported by Congress.

I have set forth the aims of Industrial Policy, "A Fair Hand in a Fair Game," and have detailed the problems of inadequate economic growth and stability. I have illustrated that the means our government has adopted to deal with problems have often been ineffective. Thus it is time for us to turn to the proposals now being mooted by Congress.

The Proposals

These proposals do not spring explicitly from the sort of examination we have just been through. Rather, I.P. has sprung into the political arena because of the public's awareness that the U.S. economy is in trouble. This awareness has resulted from the coverage by the media of the problems of Lockheed, New York City, and Chrysler. In addition, recent deep recession and doubts about the longevity of the recovery, especially in the light of enormous government budget deficits, have had their impact.

Moreover, political competition between the parties leads them to pay attention to public concerns and to attempt to produce vote-getting proposals and even beyond this, Congresspersons are citizens and, I expect, they generally want to do what they feel is useful for the country. Of course, there will be controversy and charges and counter-charges. Democrats will be accused of "throwing money at the problems," of being "Socialists," and perhaps even worse, "planners." Republicans will be accused of "selling out to the rich," of "standpatism," and of being "reactionary" and "unimaginative." We should have quite a drama to watch in the coming months. But we should remember that there is much that is healthy in debates about public policy in democracies.

Most of the interest in I.P. has come from the Democrats. This is natural since they are in the position, like Avis, of having to try harder. And since they have a majority in the House of Representatives, it is in the Subcommittee on Economic Stabilization of the House Banking Committee that most of the concern has been expressed. This is the group which was involved in the bail-outs of New York City and Chrysler and thus its concern is real, informed, and long-continuing.[21]

The Democratic Representative from Buffalo, John J. LaFalce, the Subcommittee Chairman, after 30 days of hearings during which 130 persons testified, introduced a bill in November 1983 that seeks to do three things. First, set up a "Council on Industrial Competitiveness" to examine the over-300 different federal programs that purport to aid industry, to set coherent goals, and to see that they are carried out. Secondly, create a "Bank for Industrial Competitiveness" with $8.5 billion which would be lent at market rates to those who would put up private funds equal to the amounts borrowed. And third, create an "Advanced Technological Foundation" to do research not touched by the National Science Foundation which finances basic research, and the Pentagon which funds weapons research.

Another legislative initiative, HR3443 has been filed by Representatives Timonthy E. Wirth (D. Colo.) and Richard A. Gephardt (D. Mo.) which seeks to create an "Economic Cooperation Council" to examine the potential future of particular industries and to frame new policies. It will seek to point out the potential winners and losers among industries. The Council would have nine members, three each from labor, business, and government to outline "strategies for different industries." It would have under it a "Bureau of Economic Analysis" which would seek to predict trends and the probable future direction to be followed by U.S. industry. However, and this is a bone of much contention, it would have no enforcement powers.

Representatives Stan Lundine (D., N.Y.) and David E. Bonier (D., Mich) introduced HR2991 which would restructure the Council to include 20 members, five each from labor, business, government, and the remaining five from academic institutions, consumer groups and other interests. Labor prefers this breakdown to that of the Wirth-Gephardt proposal. It would also be a stronger proposal, since it would give greater meaning to the findings of the Council by providing low cost loans from a "National Industrial Development Bank" which could lend $12 billion of its own funds and guarantee $24 billion of loans from other sources.[22]

Relying on his depth of experience and long memory, the Honorable Claude Pepper (D., Fl.) feels the provision of funds is most important and his bill, HR1480, would recreate the old, and at times very successful, Reconstruction Finance Corporation. Felix Rohatyn of M.A.C. fame has declared his support for this approach. Mr. Rohatyn is now with the Democratic think tank, The Center for National Policy with Lane Kirkland, and Irving S. Shapiro, a former Du Pont Chairman. Similar bills have been filed by Representatives Jamie L. Whitten (D., Miss.) HR1827, and Joseph G. Minish (D., N.J.) HR638. And on the Senate side, Robert C. Byrd (D., W.Va.) proposes the creation of a National Investment Corporation which could provide up to $5 billion for the modernization of basic industries.

While it is argued that governmentally supplied funds will further burden financial markets, it should be noted that in fiscal 1982, some $130 billion of credit via direct loans, guarantees, and through tax exemption were made available by the federal government. Most of this credit went to agriculture and to home buyers rather than being targeted according to any industrial policy.

Senator Kennedy and a Senate Task Force has its own set of proposals which also favor a Council representative of different groups. Although the proposals omit a financing agency, which the Senator favored, they are broader in scope. Thus, they would favor more support for secondary education and for vocational training as well as aid for permanently displaced workers. Also they would favor a tougher bargaining stance for the U.S. in dealing with other countries and would give tariff protection to industries seeking to adjust to foreign competition.[23]

From the Republican side of the aisle, Senator Heinz of Pennsylvania would allow the present International Trade Commission to give tariff relief to an industry in which labor and management were making mutual concessions. Also, he would give anti-trust exemption to mergers of U.S. firms.

And even the President, although somewhat belatedly, has sagaciously got into the act, by creating a "Commission on Industrial Competitiveness" under the President of Hewlett-Packard, John A. Young.

In most discussions of I.P. there is a recurrent theme: the loss of export markets and the heavy wave of U.S. imports, and thus there is the aim to pick the winners and the losers among U.S. industries in the world-wide competitive process. There is the hope of saving some losers and ensuring the continuation of potential winners. There is the view that government should ease and/or superintend the transfer of labor and capital out of "smokestack industries" into "high tech" ones.

Republican Representative E. Zschau of California, himself a successful high tech entrepreneur, is a strong and yet not totally unsympathetic critic of some of these proposals. He favors improving the conditions favoring enterprise and innovation. He wants generous research help, better education, and aid to securing export markets, but opposes loans and guarantees partly because he fears the politicization of the process. He would be slow to write off old and ailing industries because he feels some can be saved by technological improvements.

I have some sympathy for the idea of not writing off whole and massive U.S. industries such as steel, and of pinning all our hopes on high tech. It is sadly amusing to note the embarrassed demise of the term "Atari Democrat," the designation which had been intended to indicate the future employment opportunities for American workers, when the Atari Company announced it was expanding production . . . in Asia. And I seriously doubt that the badly needed repair of our roads and bridges will be accomplished entirely with silicon chips. I rather think steel beams and concrete reinforcing bars will do the job. But government could aid the functioning of the economy by examining and pruning here and expanding there and by coordinating present programs. And it could help by providing information and forecasts, industry by industry, on the basis of various assumptions.

I have always regretted that we used Wassily Leontieff's inter-industry table only to record what happened in the past. It seemed to me that we could use it as a format for forecasting future production and distribution on the assumption that we continue present trends and relationships, and then as a forecast on the assumption that we make some modifications in our practices, I would like to see not only production *results* but production *possibilities.* Without goals we should expect the economy to drift.

But all this discussion has ignored and continues to ignore problems in the legal organization of the country particularly as it relates to corporate organization, incentives, responsibilities and their results. Our tax laws favor paper entrepreneurship. They favor debt over equity. They favor short time horizons over long term horizons in planning and results. Surely, some attention to the implications for production, growth, and citizen wellbeing of our legal and financial framework is long overdue.

Let me illustrate this lack of perspective. I have been horrified to hear no voice raised against IBM's invasion of the small computer field and of the threat this is imposing to many splendid sources of invention, innovation, and enrichment of American life. Frankly, I would prefer free enterprise to monolithic corporate dominance, many competing companies to a few. I would prefer more avenues of product development and improvement to a few. This I thought was the promise and process of free enterprise. This was what I thought the break-up of A.T. & T. was all about.[24]

It is certainly true that, as Professor Tobin has said, "A lot of the motivations for industrial policy won't be there if monetary and fiscal policy do their job."[25] However, it must be urged that we need to restructure the economy in such a way that with less *ad hoc* government intervention, it will provide us with progress, plenty, and stability. This restructuring would impede mergers done solely for financial considerations, would stop the ridiculous depreciation over and over again of old assets and direct more corporate earnings to stockholders. Since stockholders are often pension funds, the burden on government to provide Social Security would be lessened. And the demand for other governmental programs to alleviate the deficiencies in performance of the economy would decrease. A soundly designed ship can be left on automatic pilot more than one so poorly designed that it behaves erratically. We should have a free enterprise which does more for the public at large and thus lessens the need for constant government action.

Footnotes

1. Richard N. Cooper, "Industrial policy has its pitfalls," *The Boston Globe*, Nov. 21, 1983, p. 2.
2. Cp. Richard Whatley, D.D., "Introductory Lectures in Political Economy," London: B. Fellowes, 1831, pp. 4-10.
3. Cp. Richard Corrigan, "Democrats Seek an Industrial Policy In Time for the Next Election Campaign," *National Journal* (6/11/83), p. 1221.
4. This expression of "Faith in the market" is all too often expressed by younger economists these days, and they frequently know very little about the operation of markets. And please note the plural "markets." An "efficient economy" with an efficient health care market would deliver health care according to need and, of course, dollars. It seems unlikely that Henry George would approve of an economy which provides highly disparate life spans for the rich and the poor.
5. Ira C. Magaziner and Robert B. Reich, "Minding America's Business, New York: Harcourt Brace Janovich, 1982, p. 12.
6. *Ibid.,* p. 13.
7. *Ibid.,* p. 14.
8. *Ibid.,* p. 15.
9. *Ibid.,* p. 16.
10. *Ibid.,* p. 17.
11. *Ibid.,* p. 19.
12. *Ibid.,* p. 20-22.
13. *Ibid.,* p. 23.
14. *Ibid.,* p. 24.
15. *Ibid.,* p. 25.
16. "Americans tend to divide the dimensions of our national life into two broad realms. The first is the realm of government and politics. The second is the realm of business and economics. Our concerns about social justice are restricted to the first realm; our concerns about prosperity to the second . . . .

    "In countless ways Americans are called upon to choose between these two sets of central values – social justice or prosperity; government or free market; community or freedom . . . .

    "This choice is falsely posed. In advanced industrial nations like the United States, drawing such sharp distinctions between government and market has long ceased to be useful. . . .

    "This real choice is between shielding America from a changing world economy and adapting to engage the new realities of international competition." Robert B. Reich, "The Next American Frontier," New York: Times Books, 1983, pp. 4-6.
17. Cp "OP Ed" article by Robert B. Reich, "Dialogue of East and West," *New York Times* (3/16/80)
18. Magaziner and Reich, *op. cit.,* pp. 203-260 *passim.*
19. Frank C. Genovese, "The Methodology of the Price Support Program for Wheat," *Southern Economic Journal,* Vol. XVIII, No. 1, July 1961.
20. 14 (562), Vol. 202, Number 6498, Thurs. Aug. 12, 1965.
21. Alan Murray, "With an Eye on '84 Elections, Democrats Lay Foundation For National Industrial Policy," *Congressional Quarterly* (August 20, 1983), pp. 1679-1687, and Christopher Madison, "'Industrial Policy,' Japanese Style," *National Journal* February 26, 1983, pp. 419-424.
22. Timothy B. Clark, "An Industrial Get-Well Card," *National Journal* (May 28, 1983), p. 1139.
23. Thomas Oliphant, "How to walk and chew gum," *Boston Globe,* November 13, 1983, pp. A29-32.
24. After writing the above I encountered a brief item on the front page of *The Wall Street Journal,* 12/2/82, under the following caption, "CORPORATE TAKEOVERS; Democrats seek limits; SEC chief Shad resists."
25. Bruce R. Bartlett, "Industrial Policy: Crisis for Liberal Economists," *Fortune*, November 14, 1983, pp. 83, 86 at p. 86.