WHY MOSBACHER'S PLAN WOULD HURT U.S. COMPETITIVENESS

In a speech earlier this week, U.S. Commerce Secretary Robert A. Mosbacher called for "industry-led, business-government partnerships" ostensibly as a means to improve America's global economic competitiveness. Advocates of such policies usually favor government targeting of certain industries for federal funds, special tax breaks, government loan guarantees, exemptions from government regulations, and protection from foreign competitors. Earlier this year Mosbacher endorsed a continuation of the now twenty years of trade restrictions on imported steel.

It is surprising to hear such a policy advocated by a senior Bush Administration official. For one thing, Mosbacher's rhetoric suspiciously resembles that of 1988 Democratic Presidential candidate Michael Dukakis, who lost to a Republican who promised to carry on Ronald Reagan's legacy, including getting the government off Americans' backs. For another thing, and more important, almost all economists correctly reject the industrial policy strategy that Mosbacher seems to be proposing. His idea of "business-government partnerships" contradicts the free market principles of the Bush Administration and, in the end, would make America less competitive in the world market. Though this surely is not his intention, Mosbacher would be doing the Japanese and Germans a great favor.

Wasting Billions. A policy of business-government partnerships assumes that the government has the ability to choose which industries will be profitable in the future, and thus deserve special government favors, and which industries show less promise and should be left to fend for themselves. Yet if it were so obvious which new industries would make money, presumably private businesses would be anxious to invest without government assistance. Further, there is no indication that the government can make such judgments better than private businessmen. In Europe, national industrial planning has protected older, entrenched industries, such as steel and shipbuilding, at the expense of new high-tech industries. In the U.S., national agricultural policy wastes tens of billions of dollars each year and causes severe distortions in market supply and prices.

If "business-government partnerships" are "industry-led," industries will have more incentive to seek political power, influence, and government favors as a means to ensure profits. Less effort will be spent on improving business productivity. Entrenched, powerful interest groups would prosper at the expense of less politically powerful industries and the American consumer.

Incentives to Innovate. Mosbacher is correct to note that much productivity and quality improvement is necessary and possible in some sectors of U.S. industries. But removing obstacles to innovation and entrepreneurship rather than special government favors is the best way to improve America's competitive status. In his speech this week the Secretary calls for a lower capital gains tax. He correctly points out that greater incentives to save money results in more capital available to businesses to finance new technologies and product development. Mosbacher also calls for anti-trust reform to allow U.S. businesses to work together on new product research and development.

Other reforms might include further deregulation of transportation. Current regulations at the state level especially add billions of dollars to the costs of U.S. products. Further, the U.S. could eliminate the prohibition on financial institutions engaging in both commercial banking, that is, accepting savings accounts and making loans, and investment banking, which involves the marketing of stocks. This division makes American banks less efficient. U.S. businesses often must secure financing from European or other foreign banks.

World's Best Products. Mosbacher's rhetoric does not reflect these free market concerns. For example, after his recent speech the Secretary said that if Americans "want to do more than flip the hamburgers for the world, we've got to come out with quality products." To be sure, America does not want to be a nation purveying only fast food. America is not such a nation now, and the statistics provided by Mosbacher's own government confirm that America is not about to become a nation of hamburger flippers. Mosbacher should know this. And he particularly should know that he should not use statements that perpetuate the myths of industrial planning advocates that the U.S. produces only low quality goods and that most new American jobs are low paying service sector positions. In fact, whole classes of U.S. products, for example, computers and aircraft, are the world's best. And Mosbacher too should know that, of the at least 18 million net new jobs added to the economy since 1982, over half are in the income bracket of $20,000 or more per year.

The question thus is: Does Mosbacher really believe in the government planning and regulation of the economy that some of his rhetoric indicates? Or does he favor free market solutions to America's competitiveness problems, as some of his specific policy recommendations would suggest? If Mosbacher believes the latter, which happens to be George Bush's stated policy, he must understand that his rhetoric is opening the door to policies that have proved time and again to harm rather than help economies. If he truly wants to make America more competitive, and if he believes in free market policies, then he should say what he means and help the Administration by promoting such policies explicitly.

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For further information:

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