The Genesis of Industrial Policy

by Thomas J. DiLorenzo

Milton Friedman recently proposed the following syllogism which he believes characterizes much contemporary thinking about economic policy and institutions: Socialism has failed miserably wherever it has been attempted. The entire world knows this. Therefore, the world needs more socialism! This bizarre chain of "reasoning" is nowhere more prevalent than in contemporary proposals for a national industrial policy—governmental economic planning by a "tripartite" commission of politicians, businessmen, and union leaders.

So-called industrial policy was roundly criticized by nearly all mainstream economists—liberals and conservatives alike—during the early and mid-1980s. There is wide agreement that this "halfway house" between central planning and a free market economy, as Friedrich Hayek described it, is fundamentally flawed: Governmental planners cannot possibly possess the knowledge required for efficient resource allocation. Only the market and price system can efficiently distill the massive information required. The idea that a group of government planners can imitate market resource allocation is what Hayek calls "the fatal conceit."[1]

Moreover, in a democracy, governmental economic planning schemes are bound to be influenced more by political than by economic criteria. A national industrial policy would subsidize only politically powerful businesses, industries, and unions at the expense of diminishing overall economic growth.

Despite the avalanche of criticism, and the well-known failures of all socialistic economic planning schemes, the philosophical and ideological roots of industrial policy run deep. Like the character "Jason" in the *Friday the Thirteenth* horror films, the idea just never dies. Logic, reasoning, and evidence don't seem to phase its adherents. They persistently relabel and repackage the same hoary notions, hoping they will catch on if only they are repeated often enough. Consider the recent history of the crusade for an interventionist industrial policy.

In the mid-1970s economist Wassily Leontief convened an "Initiative Committee for National Economic Planning" which, fortunately, never got off the ground. The phrase "national economic planning" was just too reminiscent of the spectacle of "planned" economies in Eastern Europe, the Soviet Union, and elsewhere, and the American public wanted no part of it.

The industrial policy proponents went right back to the drawing board and focused on a series of new marketing strategies. As Ira Magaziner, a strong proponent of industrial policy, candidly revealed: "Some of us started raising concerns about the decline of America's industrial base back in 1977; the solutions were labeled industrial policy, which became dirty words. Well, the problem didn't go away, so the concept re-emerged as "industrial strategy." Then we talked about "competitiveness policies" and, most recently, "industry-led strategies." We've had four different names for what we should be doing without doing anything."[2]

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What's in a Name?

There are other euphemisms for industrial policy, such as "economic democracy," "investment economics," and Michael Dukakis's "strategy for industrial America," which he tried to sell to the electorate in 1988.

More imaginative euphemisms for national economic planning are sure to be invented in the future. Magaziner and Harvard's Robert Reich, among others, have recently published new books promoting the same industrial policy potions they began peddling over a decade ago, and there is strong support for some kind of industrial policy in the business community and the union movement. Despite the wishes of free-market economists, this issue is not likely to fade any time soon.

Why the stubborn support for such a thoroughly discredited idea? One reason, I will argue, is that industrial policy proponents are largely oblivious to both economics and history. But if they had a better understanding of the doctrinal history of industrial policy, they might not be so enthusiastic about it. The origins of industrial policy are in an economic system that industrial policy proponents themselves would abhor—Fascism.

Contemporary proponents of industrial policy advocate many of the same *economic* policies that prevailed in Italy and Germany in the 1920s and '30s. They do *not* condone the abolition of civil and political liberties, the fanatical hero worship, the anti-Semitism, the violence, and the many other evils associated with Fascism. They are simply unaware that: 1) Fascism was an economic as well as a political and social debacle; and 2) Fascist economics was almost identical to so-called industrial policy.

Perilous Parallels

The "partnership" approach to national economic planning is one of the hallmarks of industrial policy. A 1989 United Automobile Workers publication outlines the familiar proposal for "development of a National Strategic Planning Board, made up of representatives of government, labor, businesses, and others to set goals for American industrial development, as well as specific committees on which labor, government, and business representatives would formulate plans for America's auto, steel, and other industries." This plan would supposedly "get labor, management, and government together to bargain a direction for our economy and specific industries."[3]

Business support for industrial policy is typified by a report by the Center for National Policy entitled, "Rebuilding American Competitiveness." The report was written by academicians, government officials, and, businessmen such as Felix Rohatyn of Lazard Freres & Co., former Du Pont Chairman Irving Shapiro, and representatives of the Chrysler and Burroughs corporations, among others. It calls for a "new approach to industrial policy" that is "based on *cooperation* of government with business and labor [emphasis in original]." Such cooperation would be institutionalized by "an Industrial Development Board, composed of government, labor, and business leaders" who would "develop cooperative strategies to promote industrial growth."[4]

Then of course there are the intellectual supporters of industrial policy, such as Robert Reich, Robert Solow, Lester Thurow, and Bennett Harrison of M.I.T., Barry Bluestone of Boston University, and various others. These individuals are among a number of academicians associated with a Washington, D.C.-based organization called "Rebuild America" which advocates "public-private partnerships among government, business and academia."[5]

But the idea of government/business partnerships is anything but new. It was in fact the heart of German and Italian economic policy during the 1920s and '30s. As the Italian Fascist Fausto Pitigliani wrote in 1934, Italian Fascism grouped businesses and unions into "legally recognized syndicates," the purpose of which was "to secure collaboration between the various categories of producers [i.e., employers and workers] in each particular trade. . . ."

The vehicle through which government, business, and unions would "coordinate" their plans was a network of government economic planning agencies, which the Italian Fascists called "corporations." The corporations were organized industry-wide and were intended to "secure permanent collaboration between employers and workers." These corporations were Mussolini's version of the tripartite commissions that contemporary industrial policy proponents advocate.

In Fascist Italy there was one National Council, which Fascist author Gaetano Salvemini claimed was established "to exercise very considerable influence upon the development of the means of production in the national economic life of Italy."[6] Another Fascist apologist, Luigi Villari, wrote in 1932 that such business/government partnerships promoted "a spirit of national collaboration which would not be possible under any other system."[7] The Italian National Council sounds nearly identical to the U.A.W.'s "National Strategic Planning Boards."

The National Socialist (Nazi) government in Germany established its own economic planning scheme that was very similar to the Italian system (and to contemporary industrial policy proposals). As described by historian Franz Neuman, there was a "National Economic Chamber," the duty of which was "to co-ordinate the territorial and the functional setup" of industry. This National Economic Chamber was a federal overseer of numerous local chambers, similar to the Italian Fascist system.

In a statement that could have been written by one of the contemporary American proponents of industrial policy, the German newspaper *Deutsche Volkswirt* explained in 1933 that the purpose of these institutions was to "give private industry possibilities and tasks for far-reaching collaboration."[8] According to the Nazi National Economic Minister, "Our task is the limited one of coordinating with the present idea of national government the organization of the enormous field of German business administration."[9] As in the industrial policy literature, the words "cooperation" and "collaboration" were used repeatedly by German and Italian Fascists.

The "Unity of Aim" Argument

One of the most persistent arguments made by proponents of a national industrial policy goes something like this: We've already got industrial policies—regulation, direct subsidies, protectionism, credit subsidies, selective tax breaks for certain industries—but they are too *ad hoc*, overlapping, piecemeal, and sometimes contradictory. What's needed is a more centralized or *national* industrial plan with clearly defined and fixed objectives.

As Lester Thurow has written: "We already have industrial policies. . . . The only real question is whether America has effective front-door industrial policies in which we consciously attempt to design a strategy to give America a viable world class economy or whether we fail to recognize what we are doing and have back-door industrial policies with a case-by-case adoption."[10]

Former Carter domestic policy adviser Stuart Eizenstat claimed that a national industrial policy would "be a more effective organization of what every President since George Washington has been doing in a piecemeal, uncoordinated way."[11] And the Center for National Policy claims that "to argue that government should not have industrial policies is to ignore the fact that it does." What is lacking, says the Center, "are efforts to coordinate . . . all these different policies."[12] Similar statements are repeated over and over again in the industrial policy literature.

Again, such thinking is nearly identical to what was being said in Italy and Germany in the 1920s and '30s. Mussolini himself stated in 1934 that existing government intervention into the Italian economy was "too diverse, varied, contrasting. There has been disorganic intervention, case by case, as the need arises." Fascism would supposedly "remedy" this, wrote Mussolini, because it promised to "introduce order in the economic field" and direct the economy toward "certain fixed objectives."[13]

The whole purpose of the Italian economic planning apparatus, according to Pitigliani, was to give industry "unity of aim" and to "bring together under a single administration the productive forces of the nation."[14] Admiration for central planning, in other words, is one thing the industrial policy proponents have in common with early 20th-century Fascists.

The Inherent Failures of Industrial Policy

The essence of early 20th-century German and Italian industrial policy (and of contemporary industrial policy proposals) was for government, business, and unions to attempt to "collaborate to coordinate" the economy in the public interest. Individual consumers, businesses, investors, and workers supposedly couldn't be relied upon to serve national rather than individual interests. "The function of private enterprise," wrote Pitigliani, "is assessed from the standpoint of public interest, and hence an owner or director of a busi-

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Mussolini speaking in Central Italy, September 1934.

ness undertaking is responsible before the State for his production policy."[15] Fifty years later, the Center for National Policy similarly advocated an "Industrial Development Board" that would "identify sectors of the economy crucial to the national interest" and provide "public [i.e., taxpayer] support as part of an overall development strategy."[16] The theme of economic nationalism pervades both the industrial policy literature and the literature of Fascism.

Despite the public interest rhetoric, business/government collaboration in Germany and Italy constituted a mammoth conspiracy against the public. Business and government collaborated to milk the taxpayers for subsidies to big business and to establish a vast system of government-sanctioned cartels. As a disenchanted Gaetano Salvemini wrote in 1936, although the Fascist "Charter of Labor says that private enterprise is responsible to the state . . . it is the state, i.e., the taxpayer, who has become responsible to private enterprise. In Fascist Italy the state pays for the blunders of private enterprise."

As long as business was good, wrote Salvemini, "profit remained to private initiative." Loss, however, "is public and social." Mussolini boasted in 1934 that "three-quarters of the Italian economic system, both industrial and agricultural, had been subsidized by government."[17] By subsidizing business failure on such a grand scale, Italian Fascism guaranteed a failing economy.

Such business/government collaboration also created a system of monopolies through massive regulation that could forbid the creation of new factories or the development of existing plants. As reported in *The Economist* on July 27, 1935, the Italian "Corporative State only amounts to the establishment of a new and costly bureaucracy from which those industrialists who can spend the necessary amount, can obtain almost anything, they want, and put into practice the worst kind of monopolistic practices. . . ."[18]

There was also a "revolving door" between government and industry—the familiar practice of government bureaucrats dishing out subsidies to industry, and then retiring from government to take well-paying jobs in the industries they had previously been "regulating."

German industrial policy also glorified the notion of business/government collaboration, but it too was nothing but the most ordinary protectionism. Regulations prohibited price cutting and established a system of government-sponsored monopolies, described by Hayek as "a sort of syndicalist or 'corporative' organization of industry, in which competition is more or less suppressed but planning is left in the hands of the independent monopolies of the separate industries."[19] Government/business collaboration, admitted a Nazi economist, "gives a cartel a power which it could not obtain on a voluntary basis."[20]

Lessons of History

One doesn't need to go as far back in history as Mussolini's Italy or Nazi Germany to observe how collaboration between government, business, and unions breeds corruption and monopolization. The recent HUD and savings and loan scandals are typical examples of the inherent failures of government/industry collaboration. In each instance, businesses and government officials collaborated to benefit personally at great expense to the general taxpaying public.

In 1978 the Carter Administration implemented a textbook example of the partnership approach to industrial policy. It "cooperated" with the United Steelworkers union and several steel companies to grant $265 million in loan guarantees to the companies through the federal government's Economic Development Administration (EDA). The objective was supposedly to save 50,000 jobs in four companies. By 1987 all four loans had defaulted, two of the companies had gone bankrupt, and the two others had filed for bankruptcy. The taxpayers were out $265 million and not a single job was "saved" in the steel industry.

As of April 1989, 55 percent of the EDA's loan portfolio was delinquent, with hundreds of millions of dollars in bad loans. The EDA's own staff admitted that its loan programs "would have to be considered a failure" and are "an excellent example of the folly inherent in industrial policy programs."[21]

Trucking regulation by the Interstate Commerce Commission, which cartelized the trucking industry, is another example of what one can expect from an interventionist industrial policy. Trucking firms, the Teamsters, and government collaborated to construct barriers to entry in the trucking business at great expense to consumers and potential competitors. Airline regulation by the Civil Aeronautics Board was another example of an industrial policy cartel.

Protectionism is an example of business/union/government collaboration for the purpose of organizing a price-fixing conspiracy against the public. As Adam Smith wrote in *The Wealth of Nations*, businessmen seldom meet, even for fun and entertainment, when the conversation does not turn to some kind of conspiracy against the public.

Private cartels are notoriously unstable. Consequently, monopolists have always favored "cooperation" between business, government, and unions: Only the coercive powers of the state can guarantee the survival of a privately organized cartel. Thus, monopoly is all too often the result of government/industry partnerships.

As the historical record of interventionist industrial policies becomes clearer, I predict the following syllogism will describe the attitudes of industrial policy proponents: Interventionist industrial policies have bred monopoly, corruption, and economic stagnation wherever they have been tried. Everyone knows this. Therefore, we need more industrial policy! Santayana's dictum that those who fail to learn the lessons of history may relive its mistakes is particularly relevant to the ongoing industrial policy debate. □

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Wealth, Freedom, and Philanthropy

by Peter Frumkin

Egalitarians have long argued that the rich serve no real purpose in society, and that vast accumulations of wealth ought to be curtailed. These advocates of "social justice" maintain that the only way to achieve an equitable society is to alter the distribution of wealth substantially. Very often, they call for higher rates of marginal taxation, greater inheritance taxes, and even caps on personal wealth.

What egalitarians seem to forget is that a massive accumulation of personal wealth often leads to increased charity and assistance to those who are needy. In fact, most large philanthropic institutions in the United States were founded on the wealth of one individual who was free to amass a great personal fortune.

Philanthropy's Unique Mission

In 1988, charitable giving in the U.S. to all fields, including religion, human services, health, and education, totaled more than $106 billion. By any measure, this is an impressive number. It is more than the total amount of money U.S. corporations distributed to their shareholders. It exceeds total Federal spending on non-defense goods and services. Over the past decade, as giving has increased, philanthropy has grown to play a critical, though often unrecognized, role in society.

Private giving is a powerful vehicle for change, one which often differs radically in approach from government. In fact, the private nature of philanthropy has long been viewed as one of its great virtues. It enables philanthropy to stand outside the pressures of public opinion and to engage in projects that government either will not or cannot undertake. Because of its often experimental and innovative nature, private philanthropy adds variety and competition to civic life.

In some cases, this competition can lead to the re-examination of government policy—especially in education where government's track record in designing effective programs has been less than stellar. After philanthropist Eugene Lang "adopted" an entire class of inner-city school children in New York City and promised to pay for their college education if they kept their grades up and finished high school, New York State started its own program of scholarships, "Liberty Partnerships," which were rather imperfectly modeled after Lang's design. Other examples of privately funded programs which government later tried to emulate include care for the elderly, shelter for the needy, and drug treatment.

And yet, while government has learned a great deal about "what works" from philanthropy, the private agendas of foundations and philanthropists have long evoked suspicion. The proposal to create the Rockefeller Foundation, for example, was greeted with unmitigated contempt. President William Taft's Attorney General viewed the plan to devote one of the world's largest fortunes to promoting "the well-being of mankind throughout the world" as a dangerous conspiracy—what he called "an indefinite scheme for perpetuating vast wealth."

To this day, vast wealth engenders a climate of envy and distrust: Why, many wonder, should private citizens be entrusted with distributing large

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