A supply-side economics of the left

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THE last five years have seen a major and unexpected shift in the continuing debate over American economic policy. After several decades of dominance by Keynesian macroeconomic concepts, the conservative microtheory, with its stress on incentives and their distortion by governmental policy, has increasingly set the terms of this debate. Particularly in the political arena, economic conservatives have been on the steady offensive, criticizing government policies—in the areas of taxation, spending, welfare, and regulation—for ignoring their acute and cumulative impact on the incentives of individuals and businesses.

The liberal response, though vehement and persistent, until recently has failed to achieve any sustained coherence or consistency. The Reagan administration's cuts in tax rates, halting though they were—and counteracted by tax increases mainly for social security —were first denounced as "wildly inflationary." Then the tax cuts were blamed for "huge structural deficits" that would prevent any significant decline in interest rates, and thus stifle any prospective economic recovery. And from the beginning critics attacked the Reagan program for favoring the rich by shifting the tax burden onto the poor.

The record, of course, has been quite different. Inflation has

plummeted. Interest rates have dropped, despite regular increases in the projected structural deficit. And perhaps most startling to conventional economists, the tax burden actually shifted toward the "rich," as government revenues rose smartly in precisely those higher income brackets where the deepest real tax cuts were achieved. A movement out of tax shelters after the top rate dropped from 70 to 50 percent resulted in an 11 percent rise in tax payments from higher incomes in FY 1982. As measured by quarterly "estimated" and non-withheld tax receipts, tax payments of top earners rose from $76 billion in fiscal 1981 to $85 billion in 1982, despite an unexpectedly severe recession. Moreover, the rise in payments by "the rich" has accelerated with the stock market surge during the first two quarters of FY 1983.

So, although a worldwide recession has left the United States with serious and continuing economic problems, many of the initial liberal arguments against "Reaganomics" were not confirmed by events. And the nearly complete failure of contrary policies in France, despite far more favorable initial economic conditions, has further discomfited the critics.

A new, coherent response

Nonetheless, following publication of two books in the last year by Robert B. Reich, American liberals no longer can be said to lack a sustained and coherent alternative to the conservative economic theory and agenda.[1] A professor at Harvard's Kennedy School of Government and a former lawyer at the Federal Trade Commission, Reich has developed a broad and systematic theory of the role of governmental social and industrial policy in economic growth and progress.

Conventional liberal macroeconomists, however, will find little solace in his work. For Reich is an unremitting microeconomist, focusing almost exclusively on the particular effects of government policy on labor quality and mobility, management style and effectiveness, and industrial focus and strategy. Reich does not offer an adaptation of conventional Keynesian macroeconomics, but rather an ambitious new supply-side microeconomics of the left.

Like many economists, of whatever ideological slant, Reich begins with the assumption that the U.S. economy is gravely and

[1] Robert B. Reich, *The Next American Frontier* (New York: Random House, 1983); Robert B. Reich and Ira Magaziner, *Minding America's Business* (New York: Harcourt Brace Jovanovich, 1982).

fundamentally awry. Lester Thurow, who preceded Reich with many of the key assumptions and insights of this movement, has repeatedly predicted a new Great Depression, and has offered a recitation of the fundamental problems of the U.S. economy—declining mathematical aptitude scores, a shortage of machinists, the familiar glut of lawyers—that diagnoses the death of American productivity "by a thousand cuts." [2] Reich repeats many of Thurow's strictures, and argues further that in contrast with our European and Asian rivals, the evolution of the U.S. economy toward advanced technologies and production systems has been "sluggish." "With each passing month," Reich maintains, "U.S. business loses more ground. Bankruptcies soar; inventories expand; the percentage of industrial capacity in operation declines. . . . [T]he U.S. economy is grinding to a slow painful halt."

Since writing his book, Reich continues to dismiss the current recovery as far too "anemic" to relieve any of the economy's most severe problems. With a continuing faith in the magic of aggregate demand, some Keynesians, such as Walter Heller, think that President Reagan has stumbled, despite himself, into a policy of deficits and easy money which could bring a powerful recovery. But such cyclical episodes mean little to Reich, Thurow, and their increasing band of prestigious followers who correctly focus on *long-term* economic health.

Inside the mind of American business

What Reich adds to Thurow's stimulating analysis in *The Zero-Sum Society* is a genuinely sophisticated and incisive appreciation of business organization and behavior in reaction to government policy. The analysis of management strategy in *Minding America's Business* is unequaled in scope and trenchancy by any other recent book on the subject. Availing themselves of the central concept of the learning curve, Reich and Magaziner offer a far reaching and detailed critique of the pricing, investment, marketing, and management practices of U.S. businesses competing with the Japanese.

In this analysis, the learning curve shows that expenses of all kinds decline predictably as more units are sold. The most successful companies in both the U.S. and Japan lower prices ahead of the curve in order to increase sales, thus expanding market share and lowering unit costs. Contrary to the popular rule, if you are

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[2] Lester Thurow, *The Zero-Sum Society* (New York: Basic Books, 1981).

losing money on every unit sold, you *can* make it up by volume. As *Minding America's Business* shows, Japanese companies have been proving this point for decades.

In *The Next American Frontier* Reich puts his strategic insights into a broader context of managerial history and social policy. The U.S., Reich maintains, is afflicted with a crippling and spurious division between our business and civic cultures. In the belief that social justice is inimical to economic growth, business opposes the expansion of the welfare state. In the belief that business success comes at the expense of social justice, liberals distrust and undermine business. Yet Reich argues that this division is entirely false. "Social justice," Reich contends, "is not incompatible with economic growth but essential to it." By distributing the costs of change fairly, the welfare state makes growth possible for a democracy in which established interests, threatened by progress, will otherwise turn to politics. Similarly, the success of business is indispensable to the creation of jobs and the financing of the welfare state.

The key problem of the U.S. economy, he maintains, is that mutual hostility between business and government has prevented the U.S. from adopting the integrated policies which have enhanced both productivity and distributive justice in Europe and Asia: "Americans concerned with social justice must become familiar with the subtleties of U.S. business and recognize the importance of profit seeking and investment to economic growth. American businessmen must accept that claims for participation and fairness are not obstacles to their mission, but ultimately its very substance."

According to Reich, the false dichotomies of U.S. politics spring from a conception of scientific management developed during the long era of American dominance in standardized mass production. Reich shows how the conditions of mass production—the breakdown of work into simplified movements, the division of labor into specialized crafts, the proliferation of rules and monitoring systems, the schism between administration and production, the adversary postures of management and workers—created a sclerotic hierarchy that is not well adapted to the demands of a new era.

As a result, the *mind* of American business—its strategic, financial, and administrative roles—split away from its *body*—the actual means and facilities of production.

As long as manufacturing processes were routinized and predictable, this split made sense. However, following a more elaborate presentation in *Minding America's Business*, Reich shows that this hierarchical structure is now self-defeating for the U.S. economy.

Any company that succeeds in reducing its product to the mechanized systems of mass production also creates, by that very feat, the conditions for less costly manufacturing overseas. Capital and capital equipment are easily transportable in the contemporary era. Not only will Third World countries offer cheaper labor, they also may be closer to the sources of raw materials and the fastest growing markets. Reich and Magaziner argue that the U.S. should abandon such standardized manufacturing, which, according to the law of comparative advantage, will continue to reduce the standard of living for U.S. workers. They quote a Japanese official as saying, "We should hand down these industries to the Third World like children's clothes that no longer fit."

Toward knowledge-intensive industries

The goods in which the U.S. might command a comparative advantage in international trade, Reich suggests, are items produced through flexible systems of production, and involving immobile skilled labor and rapidly changing technologies: for example, sophisticated services, computers and their software, semiconductor chips and their customization, lasers and photonics, bioengineering and pharmaceuticals—all *knowledge*-intensive industries.

Success in all these industries would require a reintegration of the mind and body of American commerce; and for that, one needs managers with hands-on knowledge of the processes and technologies of production. American executives, however, tend to go to institutions like the Harvard Business School, where they study scientific management, but not materials science; the intricacies of finance, but not physical engineering; the subtleties of game theory in negotiation, but not the challenges of manufacture; and corporate law, but not the organization of the factory floor. (Their government counterparts pursue similarly abstract topics at places like the Kennedy School of Government.)

Rather than moving the U.S. onto the baffling frontiers of technology, our business and government leaders respond to the impasse of the American economy in the only way they know how—by emitting and manipulating paper. They become, in Reich's repeated litany, "paper entrepreneurs." Unable to create real assets, they shuffle paper assets in a symbolic economy of zero-sum maneuvering and legal and financial virtuosity. They shower the system with legal briefs and regulatory orders, merger and acquisition announcements (a record $82 billion went for this purpose in 1981), executive recruit-

ing raids, and all the buyouts and leasebacks, stock and bond exchanges, "defeasances" and accounting finagles which preoccupy many American conglomerates. Some 40 percent of the chief executives of America's largest companies rise to the top through law or finance, and their average tenure is less than five years. As Reich contends, "The only general knowledge which they carry around in their heads, from one executive suite to another, concerns the manipulation of symbols and the abstract scrutiny of disembodied measures of firm performance."

As Reich shows, almost all this activity is irrelevant to the real-world challenges to U.S. business. As standardized mass production moves overseas, U.S. managers not only must understand flexible production technology; they also must collaborate with government and labor to create the skilled and flexible workforce needed to compete with European and Asian rivals.

Production policies vs. protection policies

According to Reich, the new conditions of commerce dictate that the coming years must be the "Era of Human Capital" for the U.S. The keys to success will be research, education, training, and social services designed to foster a resourceful, adaptable, flexible, and enthusiastic workforce in an economy capable of shifting swiftly among changing technical challenges. Because the marketplace denies to institutions which invest in human capital the ability to capture the returns, businesses always will tend to devote inadequate resources to education and training. Therefore this new age will demand positive and active government—indeed, it will require a comprehensive industrial policy to set priorities, develop strategies, penalize the shufflers of paper assets, negotiate the moves from "sunset" to "sunrise" industries, and develop the education and training, and social and human services needed for economic progress.

Without such policies, Reich believes, the established order of mass-production firms—from steel and autos to chemicals and rubber—will mobilize politically to thwart economic change. The "iron triangle" of management, labor, and local politicians (a concept introduced in *The Public Interest* by David Stockman, in slightly different form, six years ago) will secure a system of subsidies and protections to support declining industries and gradually enfeeble the entire system. Although these policies of "historic preservation," as Reich terms them, are often launched by liberals in the

name of the blue collar workers and the poor, social justice is an early casualty of the protectionist state. In a typically pithy sentence, Reich observes that "the costs of industrial decline cascade down through the economy until they come to rest on groups too unorganized or too politically weak to pass them on." Key victims, beyond the disarrayed poor, will be the unborn firms of the future.

During the course of this argument, Reich presents the most cogent case against protectionism to be found in recent economic literature. At a time when many Democrats are developing evermore sophisticated rationales for protection, and when the Reagan administration, under the guise of "voluntary" quotas, is beginning to capitulate to the iron triangle, Reich's blunt arguments for freer trade are timely and courageous. He exposes the endless linkages in the vicious cycle of protectionism which, in the end, brings intensified foreign measures against the sophisticated goods on which the U.S. future depends.

The realities of productive life

There is good reason to celebrate this new turn in the ideological focus of a key Democratic party intellectual, and to hope that Reich can add to his following many other leading politicians and bureaucrats of his party. Reich also seems to have some understanding (though not much more than that) of the reasons for the catastrophic failure of liberal welfare policy which, by focusing benefits on people who neither work, nor save, nor maintain their marriages, has promoted the emergence of an ever-growing underclass.

Yet for all his shrewd insights and smooth prose, all his sophisticated knowledge of business and law, Reich does not understand the economic realities of productive life. The conclusions of his books finally rest on a series of assumptions, shared by most of his liberal colleagues on the circuit between Cambridge and Capitol Hill, which are almost totally unfounded.

Both the Reich books begin with the proposition that the U.S. economy has been outperformed in recent decades, not only by the Japanese, but also by the Europeans. According to Reich, U.S. productivity growth has been slower, our labor force less flexible, our job creation less effective, our shift to high technology less swift and sure, our per-capita GNP and standard of living lower, and our longevity less than such countries as Germany, France, and

Sweden. And we fell behind despite the fact that our tax rates have been lower, our income distribution less equal, and our government spending smaller as a share of GNP.

Without engaging in an extended analysis of the murky international data, let it be said that Reich ignores a large body of evidence directly contrary to his assertions. Comparative analysis of purchasing power shows U.S. living standards substantially higher than our European and Japanese rivals. When one compares longevity after age 60 in Europe to that among white ethnic groups in the U.S., one finds that our health care is superior by relevant standards of comparison.[3] For every income distribution table which shows greater equality in Europe, there are tables which show more equality in the U.S.[4] The truth is that all such static measures lose their meaning across national boundaries since they are strongly influenced by exchange rates, demographic changes, changes in family structure, definitions of income and taxation, and a host of other elusive viriables. It is more important to focus on dynamic indicators, such as the fact that 46 percent of the members of the top income quintile in the U.S. leave it within seven years, while a similar share of the bottom quintile moves up.[5] Static snapshots of the income distribution tell us less than they seem to.

Is the U.S. outperforming Europe?

Leaving aside Japan for the moment, the key to Reich's specific charges is his assumption that European countries, benefiting from sophisticated human capital and industrial policies, have outperformed the U.S. in the realms of employment, productivity, and movement into high technology. Unfortunately these claims have no obvious foundation. During the 1970s, for example, the U.S. economy produced a net gain of 19 million new jobs, while the EEC countries created no net new jobs at all. (In fact, Germany ended 1980 with 2 percent less employment than in 1970.) U.S. employment grew five times as fast as France's and three times

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[3] World Health Organization, *World Health Statistics Annual: 1982, Vital Statistics and Causes of Death* (Geneva, 1982), pp. 452-53; U.S. Bureau of the Census, *Statistical Abstract of the United States: 1982-83* (103rd Edition) Washington, D.C. 1982, Table 107, p. 72.

[4] See, for example, Sylvia Ann Hewlett, *The Cruel Dilemmas of Development* (New York: Basic Books, 1980), p. 320.

[5] Greg J. Duncan, "An Overview of Family Economic Mobility," *Economic Outlook* 8, Number 2 (Spring, 1981).

as fast as Japan's. Even U.S. manufacturing employment rose by one million jobs, while Japan's manufacturers *reduced* employment by 11 percent.[6] While the U.S. economy absorbed a baby-boom population bulge that did not occur in Europe, and accommodated an estimated 12 million legal and illegal immigrants, the EEC countries stopped the influx of overseas workers and payed hundreds of thousands to return to their homelands.

All the productivity data cited by Reich are swamped by these demographic differences. While the U.S. workforce was flooded with new and untrained workers, U.S. capital formation suffered from high taxation throughout the decade. Consequently, it is not surprising that capital formation per employed worker dropped, as did productivity growth. The U.S., as Reich and Magaziner themselves document, performed worst in capital intensive industries such as steel and autos, did best in knowledge intensive activities such as computers and software, and created millions of new jobs in labor intensive services such as fast food, health care, and residential construction.

This pattern corresponded perfectly with the availability of resources, chiefly labor and technology, and the incidence of taxation, which is heavily focused on capital. With the real tax rate on interest averaging over 100 percent throughout the decade, new capital was scarce; and given an array of subsidies for housing, more than a third of gross savings that did exist went for residential construction.

But since the government failed during this period to figure out an effective way to tax knowledge, knowledge industries thrived. Because the government also failed to find a way to measure the productivity of the knowledge-intensive and entrepreneurial industries in which the U.S. specialized, official productivity statistics sagged. Washington statisticians were entirely at a loss to calculate the huge productivity gains and cost reduction in these computer-related industries and entrepreneurial companies which were launching entirely new goods at ever lower prices. While the economy as a whole seemed to be worsening, the U.S. balance of trade with Europe in knowledge-intensive goods sharply improved throughout the decade.

Reich's praise for the superior performance of the European economies in moving from "sunset" to "sunrise" activities rests on

[6] U.S. Bureau of the Census, *Statistical Abstract of the United States: 1982-83* (103rd Edition) Washington, D.C., 1982, Table 652, p. 390; G.C. Allen, *The Japanese Economy* (New York: St. Martin's Press, 1981), p. 155.

deceptive productivity data—data which in fact reflect the faster movement of the U.S. economy in precisely the direction he recommends. Between 1977 and 1982, for example, employment in computer-related manufacturing rose from 50 percent of employment in auto manufacture to 140 percent; jobs in communications rose by a third; computer software companies multiplied by the thousands every year; and over the last 24 months the number of retail outlets for computers rose from a few hundred to 37,000. Since the productivity statisticians systematically miss the *real* efficiency gains in the production of new goods of rapidly increasing quality and declining prices—and continue to calculate the productivity declines resulting from low utilization of capacity in "sunset" companies—the transition appears in the data as a decline in U.S. productivity. Because the productivity analysts miss the concealed waste in the continued production by European heavy industry (steel alone was subsidized by $33 billion in the last eight years) and because European social policies disguise unemployment by evicting the unemployed, European statistics have only seemed better.

What in fact has been occurring in Europe is the "crisis of the welfare state" predicted five years ago by Richard Rose and Guy Peters.[7] In Sweden, the most advanced welfare state, the average marginal tax rate is over 60 percent and the deficit stands at 12 percent of GNP and is rising. France and Germany are suffering from the same disease in a milder but still serious form. The industrial policies that captivate Reich—including low and nonexistent taxation of established companies and helter skelter subsidies for hi-tech experiments and heavy industry employment—have failed to halt the decay in the EEC. But if the European economies have failed to outperform the U.S., despite all the American errors and foibles so forcibly documented by Reich, then it is hard to understand why we should imitate their overblown welfare and industrial policies.

The case of Japan

Japan is a radically different case. Although clearly not a paragon of laissez-faire or free trade, for the entire 24 year period of its most rapid growth Japan maintained the lowest tax rates, lowest

[7] Richard Rose and Guy Peters, *Can Government Go Bankrupt?* (New York: Basic Books, 1978).

welfare benefits, and lowest level of government spending in the industrialized world. Japan also achieved levels of savings and capital formation near double those of the U.S. Contrary to the image of an economy dominated by giant cartels and controlled markets, Japan's economy has accommodated more intense domestic competition than ours: for example, 12 auto firms, 12 mainline steel manufacturers, 48 calculator firms, and 147 robotics companies. Relative to its population, Japan also generated far more new small businesses, and *seven times* as many small manufacturing firms as did the U.S.[8] Japan's greater availability of capital, its entrepreneurial vitality, and its disciplined workers have allowed it to make spectacular gains in many fields: It now dominates consumer electronics, certain advanced semiconductor memories, and industrial robotics.

In the view of Reich and many other advocates of a U.S. industrial policy, this surge of creativity, growth, and productivity stems not from any of these obvious sources, but from the industrial plans and subsidies administered by a small group of experts in the Ministry of International Trade and Industry (MITI). In a brilliant work of sustained and resourceful scholarship, Chalmers Johnson has amply demonstrated that MITI is an institution of strategic potency and intelligence far exceeding its European counterparts.[9] Although Johnson stresses industrial policy, it is worth noting that two of MITI's key leaders during the first phase of the Japanese miracle, beginning in the mid-1950s, were ardent protagonists of supply-side tax cuts. Under Tanzan Ishibashi and Hayato Ikeda, Japan effectively eliminated taxes on interest and slashed most income tax rates by 30 percent *in one year*. There is no doubt that this policy was effective in reviving Japanese savings and entrepreneurship.

But MITI's record in managing the movement of the Japanese economy from one industry to another seems mixed at best. Even in Johnson's enthusiastic account, early successes in such obvious tasks as restoring Japan's war-ravaged heavy industries (chiefly steel and shipbuilding) must be balanced against a feckless effort during the 1960s to consolidate Japan's auto industry into two giant conglomerates patterned after Ford and GM. MITI did offer some rhetorical and financial support to the superb efforts of Jap-

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[8] Robert Wood, "Where Small Companies are Important," *Inc.* (November 1981): 74.

[9] Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1982).

anese firms and entrepreneurs in consumer electronics, robotics, and semiconductors, but in general this support—smaller in most cases than U.S. space and Pentagon subsidies—has been too little and too late to be decisive. By the time MITI developed its robotics policy, for example, there were already 137 Japanese robotics firms; by the time it favored consumer electronics, the Japanese were already selling millions of transistor radios. By the time the Japanese government began the famous VLSI (very large scale integration) semiconductor project in the late 1970s, Japanese companies were already on the verge of capturing 40 percent of the U.S. market for dynamic random access semiconductor memories; in fact several companies outside of MITI's embrace—including Oki, Sharp, and Matsushita—have succeeded in making significant breakthroughs in advanced semiconductor products.

Capturing a share of the "global tax-base"

Reich's book is an excellent critique of many facets of U.S. policy. He is correct to stress the role of government in creating a favorable environment for economic growth and change, and many of his ideas and proposals—from a progressive consumption tax for the promotion of savings, to educational vouchers usable for vocational training as well as college study—are worthy of serious consideration. To the extent that "industrial policy" serves as a more politically effective strategy for combating protectionism and promoting industrial change, we must wish its advocates luck. But Reich fails to demonstrate that a greater politicization of economic life, combined with a more ample array of welfare subsidies, would amount to anything but a greater obstacle to progress.

By focusing on the managerial and directive aspects of government policy, Reich missed an inviting opportunity to merge his insights on business strategy, founded on the learning curve, with his proposals for a national policy based on the synergy between social justice and economic growth. He fails to recognize that goverment, no less than business, cannot simply mandate its returns, and that its capacity to promote economic growth and social justice is limited by the pricing of its goods and services on the learning curve. Government prices are tax rates. If they are too high, people learn to avoid them; if government services are offered in inefficient forms and limited volume, they will cost more than they are worth. But the government will not then learn to lower its costs as any business must in order to survive.

If costs are excessive, tax rates will also become excessive, and when tax rates are excessive they yield less revenue. Taxes operate in the same way that excessive prices do. Excessive prices in business tend to lower total sales, to limit market share, and to induce new entries into the business or new substitutes for the product. An excessive price of government—an exorbitant tax rate—will similarly lower total revenues and the tax base, and induce a proliferation of substitutes for taxable activity: "paper entrepreneurialism," tax shelters, overseas tax havens, emigration to low-tax areas, movement to the underground or irregular economies, leisure activities, collectibles, and real estate manipulation. In an economy where the rich withdraw from productive investment several consequences follow: Opportunity declines, the gap between the rich and poor widens, social services decay, and "social justice" becomes a cry of envy rather than an economic reality.

In crucial respects, governments are large businesses operating in a variety of intensely competitive markets, and subject to the same price rules other economic entities face. The government's income is dependent on its share of the "market"—that is, the portion of world enterprise which submits to taxation. This measure, which might be termed the share of the "global tax-base," reflects a government's success in fostering taxable economic activity within its jurisdiction or attracting productive businesses and individuals into it. As in business, market share stems more from developing one's own markets than from taking the markets belonging to others.

Like any other form of market share, tax-base share is determined by the price and quality of the goods and services offered and by the growth of the market served. A government will increase its revenues to the extent that its goods and services are attractively priced, and to the extent that the package of prices and services enhances the growth of the market. As Reich understands, *all* governments, regardless of political ideology, are necessarily caught in a global rivalry of economic management. They compete with other governments around the world in producing goods and services—from roads to pensions—and offering them at a price that simultaneously enhances tax-base share and the business-market share in the world economy.

The success of the Japanese tax cut strategy is incontestable in this regard. Government revenues *in absolute terms and as a share of world taxes* grew faster in Japan than in any other major nation, while government revenues *as a share of GNP* remained low-

est.[10] The lowest tax rates brought in the highest revenues. For some three decades Japan has been the world's cheapest producer of government goods and services, has offered them in a superior package of quality, price, and sequence, and has maximized its total profits. The result, in other terms, was that the total value of Japan's government output, measured in constant dollars of government spending, rose faster than that of any industrial country. Moreover, according to most measures, incomes in Japan were more equally distributed than in nations taxed more progressively.

Because Reich does not acknowledge the real constraints on government policy, the stern critical intelligence he brings to bear on business escapes him when he contemplates social spending. Pages of *The Next American Frontier* are filled with shopping lists of desirable measures for government: Expand technical education, but don't forget the liberal arts; expand welfare spending by both government and business; rebuild infrastructures and subsidize industries; eliminate pollution; reduce crimes and accidents; provide security against financial and medical disaster; etc. All these measures, we are assured, will more than pay for themselves by promoting economic growth and fostering technological progress. Until the advocates of industrial policy fully comprehend the costs as well as the benefits of the measures they propose, their analysis will remain just another if more plausible rationale for succumbing to the always powerful constituencies of big government.

The *new* New Industrial State

Reich's deepest misconception, however, is his belief, inherited from John Kenneth Galbraith, that the dynamic force of growth in the new age of modern technology is big business. Almost all of Reich's criticisms of American enterprise focus on the top *Fortune* 200 companies. It is because of their blindness to the dynamism of U.S. entrepreneurship, which reached unprecedented levels of business starts and venture capital investments over the last two years, that major economists can actually believe that the U.S. economy is sluggish in adopting new technologies and is headed for a period of stagnation. Except for the even more entrepreneurial economy of Japan, the U.S. still leads the world in the creativity and productivity of its system; and with millions of

[10] OECD, *Revenue Statistics of OECD Member Countries, 1965-1981* (Paris: 1982), p. 83, Table 32.

entrepreneurs, the U.S. is embracing the future far more aggressively than are its rivals.

At a time when Reich and his allies are bewailing the plight of the U.S. semiconductor industry, for example, Micron Technology, a three-year-old firm in Boisie, Idaho, has just surpassed all the large firms in the world—and the industrial policies of Japan, Britain, France, and Germany—by creating the smallest and cheapest random access memory chip. Scores of other U.S. companies that scarcely existed when Reich began his first book are now solving the very problems he so vividly and incisively depicts. This is not the "myth" of entrepreneurial redemption that Reich derides. It is the paramount imperative of the economic growth, progress, and social justice he seeks and celebrates.