Harvard Business Review

POLICY

"Industrial Policy": It Can't Happen Here

by Joseph L. Badaracco, Jr. and David B. Yoffie

FROM THE NOVEMBER 1983 ISSUE

During the last few years, many people concerned about our lagging economy have asserted that what the United States needs to combat competitors abroad and economic woes at home is a strong industrial policy. Advocates offer a variety of approaches, the two most popular being formation of an independent political institution and a restructuring of the political process to foster consensus. The authors of this article contend that neither approach adequately considers the realities of the U.S. political process and structure. Where, they ask, would an independent body get the permanent expert staff it would need to operate and how would it deal with a Congress that likes to control agency spending? Or how would a process for reaching consensus deal with interest groups? The challenge is implementation. Rather than adopt a revolutionary or even an evolutionary approach, the authors suggest that the United States concentrate on using existing macroeconomic policies and international economic diplomacy.

The United States's economic problems have been around for a long time now. Presidents Nixon, Ford, and Carter all experimented with elements of Keynesianism and monetarism to turn around declining competitiveness in world markets, stagnant productivity, huge government deficits, and rising unemployment. More recently, President Reagan has turned to supply-side economics.

But our serious economic difficulties persist, and a striking new prescription now has national attention. It is called industrial policy. One of the contenders for the Democratic presidential nomination, Walter Mondale, has endorsed it; the House Democratic caucus has issued a white paper advocating it; and business leaders such as Edward Jefferson of DuPont and James Beré of Borg-Warner have recommended it.

Much of what the proponents of industrial policy have to say is persuasive. The United States has microeconomic as well as macroeconomic problems: the auto, steel, and textile industries face especially severe difficulties. Moreover, advocates of industrial policy argue that as the federal government intervenes extensively at the industry level (often with unsatisfactory results), the United States already has an implicit industrial policy. Some of the government's measures protect uncompetitive sectors while others discourage growing industries. Finally, advocates of industrial policy correctly point out that other countries are more successful in guiding investment and augmenting market forces. Japan is the familiar example but some newly industrialized countries, such as Korea, Taiwan, and Singapore, have repeated Japan's dramatic achievements.

The time is right to put the debate about U.S. industrial policy into perspective. The real challenge is implementation. One lesson the United States can learn from other countries is that industrial policies are profoundly affected by national political institutions and economic conditions. Japan and the newly industrializing countries worked their miracles under unique political and economic circumstances. Industrial policies in Europe—which were implemented under conditions much more like those in the United States today—present a much less encouraging record. European nations are now learning what successful companies learned long ago: a brilliant strategy on paper that cannot be translated into practice may be dangerously counterproductive.

It is precisely because strategies that can't work may be dangerous that it's time to examine the current proposals for an industrial policy with an eye toward the political and economic realities of the United States in the early 1980s. Our view is that the U.S. political process will frustrate the attempt to implement an industrial policy. Public officials and industry leaders who pursue this objective will realize a negligible return on their investment of time, energy, and resources. Only policies that build on the strengths of the U.S. political system can bring long-term prosperity.

U.S. Political Process & Industrial Policy

The most serious obstacle to implementing an industrial policy in the United States is interest-group and partisan politics. Government efforts to shift resources among industries would stimulate all affected parties to full-scale mobilization. Already organized along industry lines, corporations are well positioned for such a battle. The government would have to contend with powerful and experienced industry associations as well as 1,400 well-financed corporate political action committees.

Moreover, the history of trade policy demonstrates that poor competitors are among the most active and effective political players, while profitable companies, such as IBM, often remain on the sidelines. Textile and apparel companies have pounded the pavements of Washington for 30 years and since 1956 have gained government protection from foreign competition. For most of the last 15 years, steel companies have used the courts, the Congress, and the bureaucracy to control the quantity and price of imports. And after the recent collapse in the domestic auto market, U.S. car companies became active political players in trade matters.

Companies would not be alone in seeking to influence industrial policy. The political parties would undoubtedly want roles in staffing and budgeting decisions; labor unions would want the industrial policy targeted to unionized sectors; state and local governments would naturally seek funds for their regions. Acting in their self-interest through numerous avenues of influence, all these groups will seek out the greatest benefits possible and challenge unwanted actions. This hubbub will present a formidable challenge to implementation of an industrial policy.

Proponents of industrial policy know how hard it is to formulate a coherent economic strategy in a democracy. Their most important and interesting proposals on how to do so fall into two categories. One is to create an industrial policy institution with genuine political independence that is buffered from political pressure. The other seeks to reshape the political process by fostering consensus, bringing new parties to the bargaining table, creating new forums for discussion, and giving the parties new incentives for restructuring the economy.

The Politically Independent Institution

The first approach has roots in Ezra Vogel's well-known book, *Japan As Number 1: Lessons for America*.[1] Vogel argues that, like Japan, the United States should foster competitive industries and phase out declining ones. Although he acknowledges that transplanting the Japanese experience to

America would not be easy, he believes that the United States has little choice but to take several dramatic steps. He recommends that the government establish a cadre of senior-level bureaucrats who are paid well enough so that they won't leave and who have far-reaching mandates and freedom to oversee the development and implementation of long-range programs in their respective areas. Without such people, Vogel thinks establishing an effective industrial policy would be impossible. Despite the dangers to individual rights and creativity that would accompany a centralization of power, Vogel views an independent political body as the only way for the United States to restore its position as number one.

Following Vogel's lead, many prominent political figures and organizations recommended that a group of high-level and relatively independent officials implement industrial policy. An AFL-CIO proposal suggests that an autonomous "national reindustrialization board" be given the authority to target investment and tax credits on industries and regions. The former deputy secretary of commerce, Frank Weil, believes that if something like the Federal Reserve—with long-term appointments and access to independent sources of funding—implemented policy it could reduce political distortions to a minimum. And investment banker Felix Rohatyn has proposed that Congress establish a modern version of the Reconstruction Finance Corporation (RFC), the government agency that lent billions to distressed industries during the Depression and World War II. Following Rohatyn's recommendation that the new RFC be able to "husband its resources and target them," Senator Daniel Moynihan introduced a bill to Congress under which the new RFC would be "an independent body" with no political affiliations.

Political obstacles. The proposals for a powerful, centralized industrial policy agency address the political challenges head-on. They recognize the difficulties a group would have implementing any form of industrial policy in the United States without political independence. Taking the step from proposals for a politically autonomous body to its actual creation, however, is not easy. It would require that several revolutions occur in U.S. politics.

Staffing

First, and perhaps foremost, the U.S. government would have to staff such an agency. To guide the major sectors of a complex economy, such an institution would have to draw from the best of U.S. society the same way the Japanese government attracts the top students from Tokyo University and the British bureaucracy draws an elite from Oxford and Cambridge. And, as Vogel points out, because experience would be a critical ingredient for industrial policy to work over the long run, this new breed of civil servant would have to remain in government for many years.

Yet the very idea of a professional government elite that would rival the private sector presupposes that the U.S. civil service would undergo a radical change. The federal government rarely provides the incentives for careers in public service at the highest levels. The average tenure of political appointees, such as assistant secretaries and under secretaries, ranges from 18 months to 2 years. The average top salary of the government's most experienced executives is only $52,000. By contrast, for their first year in a consulting firm, relatively inexperienced MBAs from top schools receive between $50,000 and $70,000. A decade after graduation, many of these MBAs have a personal net worth exceeding a quarter of a million dollars.

The federal government has been able to attract talented young professionals, but only to a few specialized, powerful agencies like the Federal Reserve and the National Aeronautics and Space Administration. For an industrial policy bureaucracy to attract a high-powered staff, the minimum requirement would be power and prestige comparable to these other agencies. Yet it would be far more difficult to create an equally prestigious industrial policy institution than it was to establish an independent science agency or an agency to regulate the monetary field.

Autonomy

Currently, the authority for an effective industrial policy is spread among all branches of government and dozens of agencies. Congress jealously guards its control over executive branch agencies and enforces it with the power of the purse. Senators and representatives routinely call high-level bureaucrats to testify before congressional committees and hold those bureaucrats accountable for their actions. Furthermore, by raising or lowering an agency's budget, Congress has an important influence on policy.

The logic of a strong industrial policy, however, demands that Congress forgo these prerogatives. Unless Congress granted an industrial policy agency genuine autonomy and unrestricted funds, it would become another arena for the jockeying among interest groups that now shapes congressional decision making.

A truly independent industrial policy organization would require a revolution in the relationships between Congress and the executive branch, between the executive and the judicial branches, between the federal and state governments, and finally, among departments and agencies within the executive branch itself.

For instance, the courts have a major say in matters relating to corporate size, antitrust, and many other crucial aspects of corporate governance; and after major government agency decisions, attorneys for various parties engage in a race to the courthouse to get decisions reviewed in the most favorable jurisdiction. Fifty state governments battle among themselves and with the federal bureaucracy for federal funds and corporate investments. And a myriad of executive agencies—the FTC, EPA, OMB, the Export-Import Bank, and so forth—compete for influence on important economic questions. Without revolutions in most of these relationships, a U.S. industrial policy would hardly differ from the disjointed, often contradictory, government policy that its proponents wish to avoid.

Justification

The only way dramatic change could occur would be for everyone in the country to agree that the United States faces serious economic problems. Severe national crises, such as the Depression and World War II, led to radical changes in relations among private and public institutions.

During World War II, the United States had an explicit industrial policy. Its simple objective was to produce war materials with little concern for such complications as international competitiveness, antitrust laws, or competing national objectives. Business-government relations were transformed, albeit temporarily. Under a War Administration Committee whose principal concern was close collaboration with government agencies, General Motors became the nation’s largest producer of war materials. During the war the RFC, which had played a relatively minor role through most of the 1930s, shifted its resources from civilian production to defense, building war-related industries with limited concern for interest group struggles.

Many advocates of industrial policy think that there is today a severe national crisis and that urgent concern about lagging productivity, poor international competitiveness, and a relative decline in our standard of living could be the catalysts for restructuring business-government relations in the 1980s.

While the deterioration in our international position is real it is not as widespread nor as calamitous as many believe. True, the United States has large trade deficits and high unemployment in selected industries. A large oil bill has thrown the U.S. balance of trade in merchandise goods into deficit for most of the decade. Contributing to that deficit are a number of uncompetitive but very visible sectors: annually, the United States imports twice as many consumer goods as it exports; it imports almost three times as many autos as it sells abroad (excluding Canada); and it buys overseas approximately one-quarter of the steel it uses.

But a careful examination of the international balance of payments is unlikely to turn up evidence to justify the creation of a powerful industrial policy agency:

- Despite concern about inadequate research and development in the United States, U.S. companies account for nearly 50% of the total R&D spending in OECD countries. R&D in the United States has not grown as fast as in Japan, but as a percentage of GNP, U.S. spending is greater than in Japan or Germany by a ratio that is more than 3 to 1 and is rising.

- The United States has a growing surplus in high-technology trade (see Exhibit I). Since 1977, the U.S. balance of trade in these high-technology products has doubled.

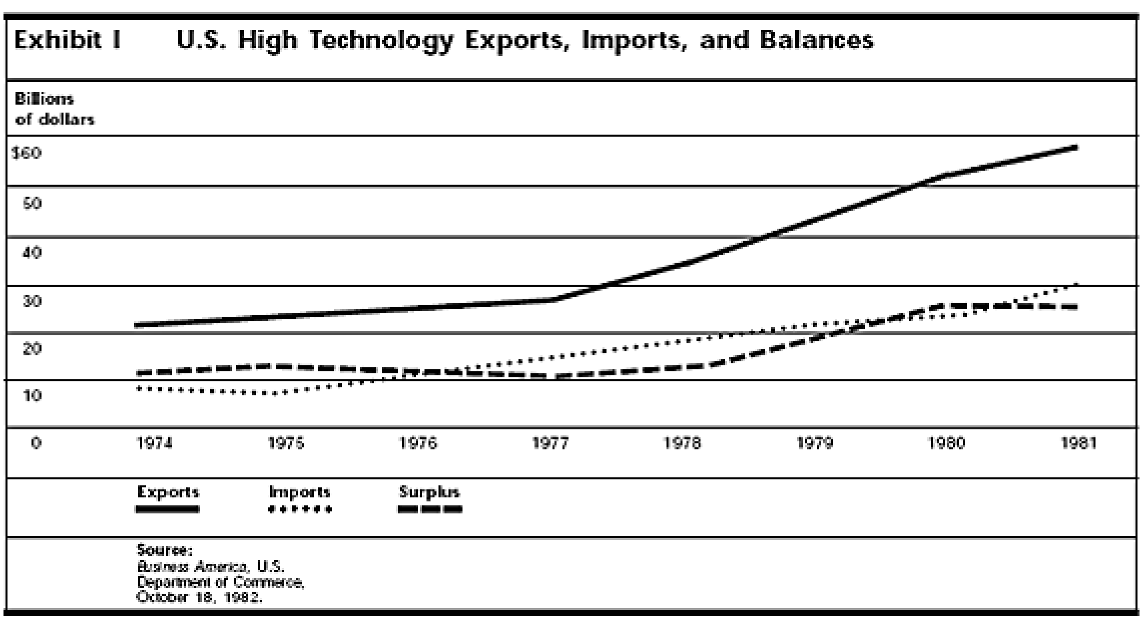

Exhibit I U.S. High Technology Exports, Imports, and Balances Source:Business America, U.S. Department of Commerce, October 18, 1982.

- After almost 20 years of declining competitiveness in manufactured goods, the United States has reversed the trend. The U.S. share of world exports of manufactures declined steadily from the late 1950s to 1978. In the next three years, the U.S. share rose to its highest level since the late 1960s (21.5%).

- The United States has a highly competitive service sector. Not only is the United States the leading exporter of services in the world, but recent studies suggest that accounting conventions underestimate U.S. revenues from the export of services. According to a 1980 Department of Commerce analysis, the export of accounting, financial, insurance, transportation, and other services may be twice as high as the balance-of-payments accounts indicate.

- Finally, while Japanese successes are a thorn in the side of U.S. industry, its export successes have equally troubled European countries and dozens of other nations. Throughout the 1970s, the United States balance-of-trade surplus with Western Europe usually equalled or surpassed the U.S. balance-of-trade deficit with Japan (see Exhibit II).

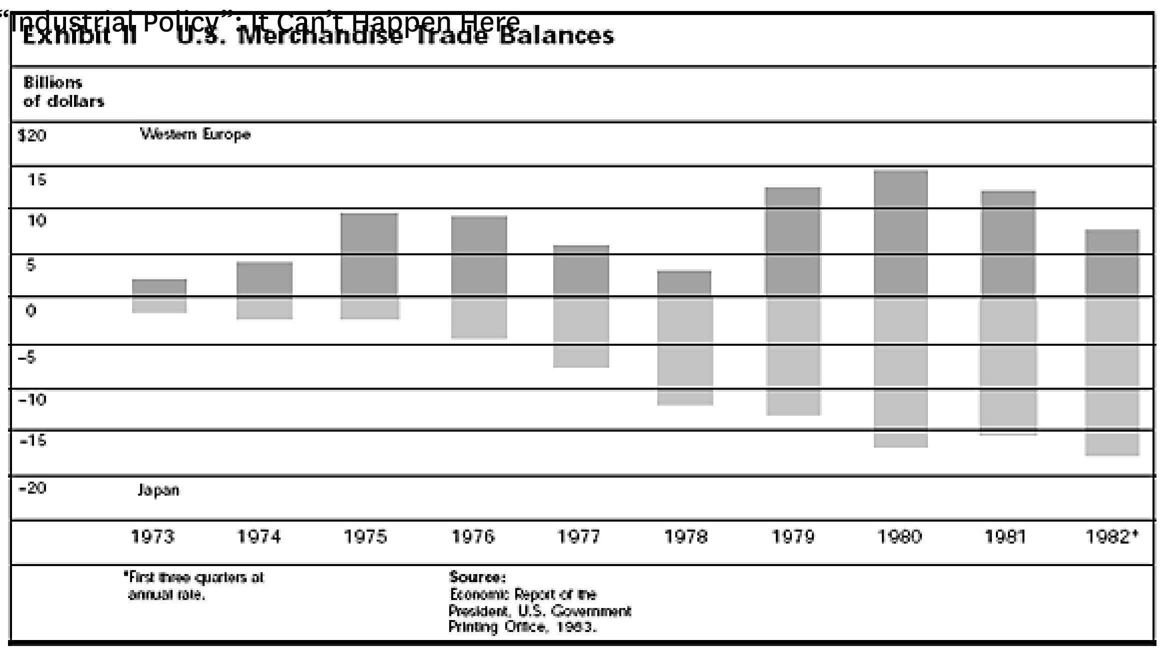

Exhibit II U.S. Merchandise Trade Balances Source: Economic Report of the President, U.S. Government Printing Office, 1983.

None of these facts implies that the United States does not have a competitive problem: energy dependence and the travails of basic industries are serious concerns. Nor do they suggest that U.S. industries have no room for performance improvement. But a crisis of monumental dimensions simply does not yet exist. Unlike the Depression, industrial production and trade have not totally collapsed, and no threat like World War II looms to justify massive changes in U.S. government and politics. Implementing an industrial policy under these circumstances, especially policies like those Vogel, Rohatyn, Weil, and the AFL-CIO recommend, would be problematic at best.

Reshaping the Political Process

Recognizing the difficulty of creating a strong, independent institution buffered from political pressure, some proponents of industrial policy advocate orchestrating or reshaping our well-established political process, not changing it fundamentally.

This approach to implementing industrial policy calls for creating new forums for formulating policies, bringing new players and new information to the bargaining table, and introducing new incentives to help business, labor, and government work out mutually acceptable solutions. Robert Reich, a lecturer at the John F. Kennedy School of Government at Harvard, provides the clearest and most persuasive presentation of this view: “The creation of a single bargaining arena for allocating the costs and benefits of adjustment…would at least provide government with the institutional capability of achieving a broad-based consensus about adjustment policies…[and] a focus for an ongoing national debate about economic change…labor and management facing industrial decline would be in a position to negotiate with government a package of adjustment assistance designed explicitly to salvage their most competitive resources and to shift the rest to more profitable uses.”[2]

Along the same lines, the House Democratic caucus last fall proposed the creation of an economic cooperation council in which industry, government, labor, universities, and other institutions would forge a “partnership.” The council would provide updated and comprehensive data. To ease the transition from old industries to new ones, the caucus proposed financial incentives and adjustment assistance to defray the cost of retraining workers and to encourage “new industries to locate where old factories are closing.”

The idea of implementing industrial policy by reshaping our political process through better information, new forums, new players, and new bargaining chips is quite attractive. Dialogues among affected parties—aided by better information, widely disseminated—could encourage the formation of realistic and mutually acceptable agreements on ways to make industries more competitive. The right new players at the bargaining table, acting in their own self-interests, could press for policies that make better competitive sense. For example, new participants who were domestic customers of U.S. industry that regularly seeks trade barriers would resist protectionist policies that raised their costs and reduced their own international competitiveness.

A dim prospect

But the real challenge for the champions of industrial policy is to move beyond making broad proposals to offering detailed accounts of how to implement them. From this perspective, the prospects for reshaping are not encouraging.

Consider, for example, the idea of promoting consensus and improving decision making through sharing of important information. How can this idea be translated into practice? Companies jealously guard information they consider strategically vital, and under an industrial policy, would continue to do so. Furthermore, much of the information on which managers base important economic decisions is complex, specialized, and includes much judgment. A lot of this information would come from companies that would have the opportunity to present much of it in self-serving ways. And important decision makers would discount information they suspect of political contamination.

But the politics of information is only one problem. Another challenge is to generate new information. For example, the typical *Fortune* “500” company devotes enormous resources at all levels to gathering important data. Companies also hire consultants, at a cost of $4 billion a year, to develop whatever information they cannot generate on their own.

Even if planners solved the information problem, their next challenge would be to create effective new forums with new players. The innovative contributions of new forums are likely to be few; the key players in major economic decisions are now free to communicate and are informed. Tens of thousands of pages, for example, have been written about the problems of the steel industry. Companies, unions, and committees have discussed the causes, consequences, and possible solutions of the industry’s problems for more than a decade. All the parties know the positions, constraints, resources, and personalities in intimate and frustrating detail. For members of the steel industry, incentives to find some resolution to their common problem are already enormous, and further communication in yet another forum is unlikely to lead to constructive solutions.

The participation of new players also raises practical questions. First, will new players say anything original? Currently, without an industrial policy, consumer interests already make their positions known. In January 1982, Roger B. Smith, chairman of General Motors, said that unless the possibility of a U.S. steel strike was lifted soon, GM would consider proposals from suppliers overseas. Second, if companies or industries feel threatened by the forums, they have myriad channels for action. And we must remember that the issues that these forums would consider would be among the most difficult and contentious that our society faces. Because the stakes for all parties would be very high, their incentives to seek better results in Congress, the executive branch, or in the courts would be very strong. Without revolutions in our political system, like those we described in the previous section, such end runs would cripple an industrial policy forum.

Robert Reich and others recognize this potential for sabotage and offer a logical solution: financial incentives for retraining workers and relocating industry that would compensate potential losers.

But these incentives present a serious problem: no one has a clear idea of their costs. Such vagueness partially explains the wide appeal of industrial policy. Yet the cost of such incentives could be staggering. If Chrysler had been phased out in 1979 as part of an industrial policy, it could have cost the federal government $1.5 billion in added welfare and as much as $3 billion to retrain the 300,000 jobless. If local communities, shareholders, and bankers also demanded compensation, the price would have escalated.

Applying such policies to steel, apparel, and other sectors could run into tens of billions of dollars—unthinkable figures in an era of budgetary restraint. And the costs would be likely to swell as various parties become more skilled at demonstrating their need for compensation. In its initial years, an industrial policy that seeks to direct resources to winners might find itself funneling massive funds to politically adept losers.

New forums with chips for bargaining—even if we could afford the chips—also raise the risk of greater protection. How would a forum avoid situations in which industry, labor, and government agree on protectionsit measures that serve their short-term interests and the nation’s? Evidence from overseas confirms that industrial politics can overwhelm political industrial policy. While proponents cite Japan as their model, they ignore Europe, where political traditions are similar to ours.

For example, for 20 years Britain's industrial policy was to promote growth sectors and trim back declining ones. But politically powerful industries thwarted those efforts. Protection and subsidies prop up much of the economy: British Leyland alone cost taxpayers more than £500 million a year. Britain is not unique; throughout Europe, industrial policies have produced price supports and nontariff trade barriers that subsidize such large, inefficient industries as textiles and steel.

In the end, the most the United States could hope for with this approach to industrial policy is an evolution of U.S. institutions that could take decades. Yet, the problems proponents cite are, in their view, of the greatest urgency. This is a serious mismatch of problem and solution. A powerful industrial policy institution would avoid the mismatch but the chances of establishing a strong, independent industrial body in the United States in the near future are very slim.

Guidelines for Progress

The U.S. political process presents an insuperable barrier to implementing either approach to an industrial policy. But is it also a barrier to strong national economic performance? We think not.

Three guidelines derived from considering the U.S. political system facilitate the handling of issues in which politics and economics are commingled:

Recognize that the decentralized and fragmented U.S. political system has advantages.

The United States divides governmental authority among federal, state, and local levels, among the branches of the federal government, and among the many agencies of the executive branch. Because of this diffusion of power, and because the government must represent a wide diversity of interests, the United States does not—except in times of major wars and economic calamity—pursue single objectives with maximum short-term efficiency.

But the system provides compensating benefits. One is wide participation in decision making. A company or an industry has many opportunities to shape policies. Unlike its counterparts in some other countries, a U.S. company runs less risk that a single decision will seriously harm its interests. Furthermore, because decentralized decision making takes time, affected parties can develop their positions and analyze competing views. In the process, they bring relevant information on complex issues to the foreground, and all viewpoints are subject to the intense public scrutiny of interest-group conflict.

In the end, of course, the final decisions are often compromises among contending groups and contending parts of government. Because the politics of compromise moderate policy, the government can't pursue mistaken policies as thoroughly as can more centralized governments. The indirect cost of protecting our steel industry, for example, is estimated at $1 billion per year; in Europe, governments have paid $4 billion a year in direct costs to subsidize steel.

Try to improve the political system without fundamentally altering it.

Democrats and Republicans, supply-siders and Keynesians, industrial policy's advocates and opponents unanimously agree that government decision making needs improvement. The route to success, however, is not through an unlikely revolution but through incremental adjustments. The U.S. Special Trade Representative, for example, has been relatively effective in coordinating trade policy. Recent proposals to centralize more authority in the Trade Representative's office deserve attention.[3] Better coordination among agencies could reduce the number of times that the government's right hand helps an industry while the left hand hurts it.

But achieving such coordination is not a matter of sweeping reorganizations or one-time efforts, as the record of presidential attempts suggests. Since 1970, every U.S. president has established special groups to coordinate economic policy. President Nixon had the Council on International Economic Policy, President Ford tried an Economic Planning Board, and President Carter established an Economic Planning Group. Again and again, the new bodies fought turf battles with well-established agencies. Although none of this is likely to change, efforts to contain the centrifugal forces of government should continue.

Furthermore, companies can make positive contributions to the effort. During the past five years, for example, American Express has pressed the U.S. government to take a strong stand in favor of establishing international mechanisms to liberalize trade in services. Working patiently behind the scenes—with other service companies, with key congressional officials, with officials of the Trade Representative's office and other agencies with authority over U.S. trade in services—American Express successfully educated the government about the importance of services trade and the need for a broad, consistent government position. Convinced of the necessity for such liberalization, the United States managed to gain support in the GATT in November 1982 for further studies on service trade.

Patient, politically realistic efforts do matter. They can improve public decision making and its impact on managers' decisions.

Use existing economic tools to deal with national and international macroeconomic problems.

U.S. economic performance will not justify a major restructuring of business-government relations. But the United States does face pressing economic problems, such as recession, high unemployment, and growing government deficits. The American economy is also tied to structural difficulties in the world economy, such as rising global protectionism, volatile exchange rates, and a debt burden that is crushing developing nations and threatening the world financial system. While the microeconomic problems that industrial policy addresses are important, solving macroeconomic problems is a precondition of a return to prosperity. They should be the principal focus of national debate.

Fortunately, the U.S. government already has the tools—macroeconomic policies and international economic diplomacy—for dealing with these challenges. Unlike formulating industrial policy, using

these tools does not require a revolution. The executive branch has always had authority over foreign affairs, and for at least 35 years it has largely controlled fiscal and monetary policy.

In Japan and West Germany, effective macroeconomic policies have been essential to economic growth. Through most of the postwar period, both countries have had coherent approaches to government spending, the money supply, and areas such as energy pricing. Both countries also experienced almost 30 years of uninterrupted growth. Without low inflation, high rates of saving, moderate interest rates, and reasonably valued foreign exchange, the industrial policies of these countries would have been far less effective.

The Japanese and German experiences, as well as the U.S. experience in the 1960s, show how to use macroeconomic tools to encourage critical activities such as R&D and capital investment. Tax incentives that favored capital formation and R&D engineered in part West Germany's miracle. And some critics have traced West Germany's recent economic problems to its switch from indirect incentives to government efforts to target resources. In addition, in the early 1960s the Kennedy administration effectively stimulated investment through tax policy and investment credits.

The benefits of a stable macroeconomic environment that encourages productive investment are easy to see. Business managers can act on the basis of positive expectations and plan with a long-term perspective. Without consistent macroeconomic management, prices, costs, and, therefore, profits are unsteady. Volatile high interest rates lead to heavy discounting of long-term opportunities, and even generous subsidies to promising industries accomplish little in an unstable, low-growth economy.

Consider the Ford Motor Company. During the early 1970s U.S. energy policies kept gasoline prices below world levels. Americans consequently demanded larger cars and were unconcerned about fuel efficiency. Ford's U.S. product line reflected these preferences. In retrospect, of course, this was a giant mistake. By contrast, when Ford faced realistic energy prices in Europe, it developed the Escort, one of the most successful cars in recent automotive history.

National macroeconomic policies, however, are only one component of the program that the U.S. government can and should pursue. While industrial policy focuses national attention narrowly on the competitive problems of domestic industry, many critical issues are multinational in nature and require global cooperation and diplomacy.

Growing trade barriers, for example, could stifle any future U.S. recovery. The United States is increasingly dependent on exports (11% of U.S. GNP) at a time when global trade is becoming increasingly managed. The same problem exists in international currency markets. The volatility in exchange rates since the collapse of fixed rates in 1973 has created severe problems for U.S. business (see Exhibit III). Mobil Corporation lost $200,000 on a single transaction in 1981 because of rapid currency movements, even though it had hedged its position.

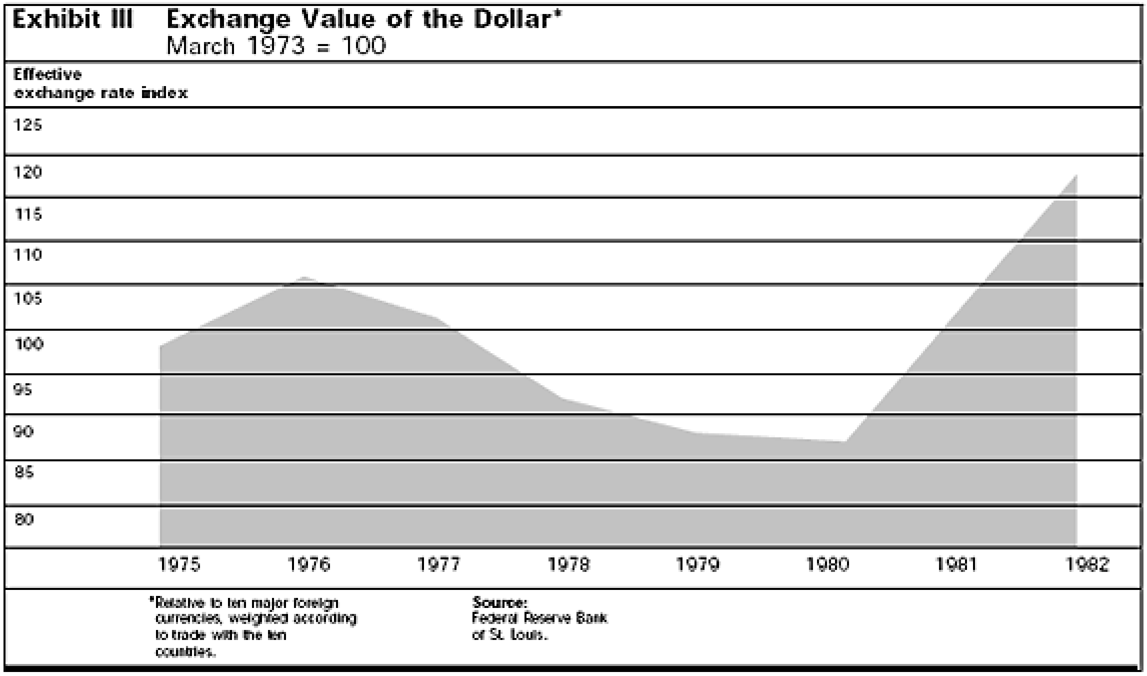

Exhibit III Exchange Value of the Dollar* *Relative to ten major foreign currencies, weighted according to trade with the ten countries. Source: Federal Reserve Bank of St. Louis.

Upward swings in the value of the dollar also can be detrimental to U.S. competitiveness. Between mid-1980 and the summer of 1982, the U.S. dollar appreciated more than 30% against ten major foreign currencies. Some economists have estimated that as much as 80% of the drop in the nation’s economic output during this period was attributed to an overvalued dollar hurting merchandise trade.

Finally, the growing debt burden of Third World countries and the strain being placed on U.S. international banks represents one of the most immediate threats to the nation’s well-being. The total debt of developing countries is over $600 billion. Without an agreement on how to manage this massive outstanding debt, the global financial system and the prospects for global recovery will remain in jeopardy.

Resolving these international problems will be extremely difficult. But compared with the problems addressed by industrial policy, the dangers and the payoffs are far greater. Moreover, the difficulties of the international economy can be addressed by the U.S. political system as it exists, not as it might be. Historically, the U.S. executive branch has always had the power to negotiate foreign economic policy. As recently as 1979, the United States demonstrated its skills in this area by successfully completing the contentious Tokyo Round of trade talks.

Recognizing the advantages of our decentralized system, improving decision making, and focusing national debate on macroeconomic international issues rather than microeconomic domestic ones will not create a perfect world or make the United States a well-oiled mercantilist machine like Japan. It would, nevertheless, be a genuine accomplishment for the United States to lead the world toward a more cooperative international economy and create a stable macroeconomic environment for business decision making. Unless the United States puts industrial policy in perspective, the national debate may neglect the big picture. U.S. business leaders and government officials should invest their time and effort in policies that they can implement and that address the urgent problems of today. The goal should be to avoid the crisis that could make industrial policy a realistic option.

HBR on Industrial Policy

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Alan M. Kantrow, editor, **The Political Realities of Industrial Policy,** September–October 1983

Robert A. Leone and Stephen P. Bradley, **Toward an Effective Industrial Policy,** November–December 1981

George C. Lodge and William R. Glass, **U.S. Trade Policy Needs One Voice,** May–June 1983

Robert B. Reich, **Why the U.S. Needs an Industrial Policy,** January–February 1982

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2. Robert B. Reich, “Making Industrial Policy,” *Foreign Affairs,* Spring 1982, p. 876.

3. George Cabot Lodge and William R. Glass, “U.S. Trade Policy Needs One Voice,” HBR May-June 1983, p. 75.

A version of this article appeared in the November 1983 issue of *Harvard Business Review*.

Bruce R. Scott, **Can Industry Survive the Welfare State?,** September–October 1982

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