The Feasibility of a Comprehensive U.S. Industrial Policy

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The decade of the 1970s witnessed the end of American worldwide economic hegemony. Rising energy costs, Japanese and European economic competition, declining industrial productivity, and persistent stagflation caused many Americans to question a basic assumption of post-World War II political and social life: that American society, whatever its other faults, delivered a continually rising level of material prosperity which was the envy of the world. Not surprisingly, declining economic performance also called into question the traditional approaches to economic policy making. Both the dominant doctrine, Keynesianism (concerned with maintaining adequate levels of aggregate demand) and the dominant method, macroeconomic management, were attacked. Criticism of Keynesian macroeconomic doctrine came primarily from the political right which advocated a traditional alternative, monetarism (concerned with control of the money supply), along with a couple of novel ones, supply-side economics and rational-expectations theory. After the 1980 elections, the Reagan administration carried out an economic program combining all three of these doctrines along with a strong dose of the even more traditional laissez faire. At the same time, liberals too have developed an alternative approach to postwar economic policy making that has come to be labeled "industrial policy." This approach involves moving beyond macroeconomic management to systematic

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The purpose of this article is to analyze some aspects of the political feasibility of industrial policy. As the concept has moved into the political agenda it has produced numerous critics as well as supporters. Both conservative and liberal economists have questioned the economic wisdom of a comprehensive industrial policy. Though some critics include political arguments in their analyses, a thorough political analysis of the prospects of industrial policy has yet to be made. I will contribute the beginning of such an analysis in this article. First, I wish to examine the corporatist approach to policy making implicit in most proposals for industrial policy. How appropriate is a corporatist approach in the American political context? Second, I will critique the "rational-comprehensive" method of policy analysis proposed by industrial policy advocates. Is an attempt to make industrial policy systematically and coherently likely to succeed, and is such an attempt likely to produce better consequences than current policies?

One factor complicating this analysis is the diversity of proposals from a variety of different policy advocates that constitutes the category "industrial policy proposals." In just a few years a large number of books and articles have been written advocating industrial policy. These proposals are quite different from one another and represent different ideological perspectives. I have chosen to concentrate on the work of just four industrial policy advocates: MIT economist Lester Thurow, Harvard public policy expert Robert Reich, business consultant Ira Magaziner, and New York investment banker Felix Rohatyn. All are among the most prominent industrial policy theorists, and each approaches the issue from a mainstream Democratic liberal ideological perspective. Although there is considerable variation in the specific proposals that these four industrial policy advocates favor, their overall approach to industrial policy making, especially their critique of existing government policies, is sufficiently similar to permit the analysis attempted here.

WHAT IS INDUSTRIAL POLICY?

The essence of an industrial policy is government formulation of a strategy for structuring the shape of national industry. According to Robert Reich, the industrial policies of various nations are "analogous to corporate strategies." Just like large corporations, nations can make critical choices about industrial development in order to improve their capacity to compete successfully in the international economy. Industrial policy proponents differentiate their approach from older notions of comprehensive economic planning by insisting that government should intervene selectively to mold market forces rather than attempt government command of the entire economy. Expert analysis of a nation's economy and the international economic environment should permit the choice of specific government policies to improve economic performance beyond what it would be if market forces alone shaped this performance.

Why is an American industrial policy needed? The American economy, according to industrial policy advocates, is undergoing a fundamental restructuring in response to changes in the international economic environment. A key to this restructuring is the end of post-World War II American dominance of the world economy. Many of our basic industries, like automobiles and steel, are failing in competition with European, Japanese and Third World industries, leading to industrial plant closings and the economic decline of industrial regions. This process of deindustrialization creates the risk that America will become "a nation of short-order cooks and saleswomen, xerox operators, and messenger boys." At the same time, technological innovations are creating opportunities for the development of new industries such as manufacturing industrial robots or applying new biotechnology. Major competition is underway to see which countries and firms will become dominant in exploiting these technologies. How American industry is restructured to accommodate declines in basic industry and the emergence of high-technology industry will have profound effects on the absolute standard of living of Americans and the standard relative to the citizens of other nations.

So far, according to industrial policy advocates, the United States has not done very well in international competition. A major reason is the success of industrial policy in other nations and the absence of a coherent industrial policy in the U.S. While American policy makers have relied primarily on macroeconomic policy instruments to promote the general level of economic growth, European and Japanese policy makers have supplemented macroeconomic management with comprehensive structural strategies to improve their overall competitive position. They have developed both the institutions and methods of industrial policy making necessary to shape industry to assure its competitive-

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6 Ibid., 40.
7 Reich, Next American Frontier, 234.
8 Rohatyn, Twenty-Year Century, 127.
9 Magaziner and Reich, Minding America's Business, chap. 1.
ness. In the era of American economic hegemony, macroeconomic management was sufficient to guarantee our competitive position; in this new era of international competition, the U.S. must develop similar instruments of industrial policy making or lose out to the superior strategies of foreign industrial policy makers.

Improving the competitiveness of the economy is the central goal of industrial policy, but all its advocates place an equivalent emphasis on the equitable distribution of the costs and benefits of economic adjustment. Felix Rohatyn has argued that assuring the fairness of economic readjustment is critical for the preservation of democracy. 10 In a series of articles in the New York Review of Books he has argued the virtue of industrial policy as a means of easing the decline of industry and regions to assure that all “share the burdens as well as the benefits this country has to offer.” 11 The goals of distributional fairness and improved competitiveness are linked in that policies can be devised to restructure declining industries to improve their competitive position as well as focus investment in declining regions to create new industries to absorb workers from declining sectors. Protectionist policies which merely insulate industries from competition are condemned. Instead, comprehensive industrial policy can promote the overall capacity of the economy to compete. 12

Industrial policy includes a long and varied list of specific policy proposals. To summarize briefly, they can be grouped in five categories:

Policies to ease adjustment to industrial decline. For a variety of reasons, ranging from the age of U.S. plants and equipment to low-wage Third World competition, a sizable portion of certain American industries cannot compete internationally and, unless propped up with ill-advised protectionist measures like quotas or domestic content legislation will not survive. The government should respond to these declining industries in two basic ways: worker retraining programs and investment programs to restructure these industries. Worker retraining might be accomplished through government-run training programs, subsidized programs in industry, or worker vouchers which unemployed workers from declining industries can spend to learn new skills. 13 Those industries that cannot survive international competition in their present form can be restructured to make them more competitive. Rohatyn, an investment banker, conceives this restructuring in financial terms: firms should receive government loans and loan guarantees in exchange for management changes, divestiture of noncompetitive units, and union agreements for wage restraint. 14 Reich has a more complex conception of restructuring involving, first, conversion to “higher value production.” By this, he means those types of industrial production requiring

10 Rohatyn, Twenty-Year Century, 77.
11 Ibid., 129.
12 In some respects, the focus on improving productivity is similar to “supply-side” economics. See George Gilder, “A Supply-Side Economics of the Left,” The Public Interest 72 (Summer 1983).
13 Magaziner and Reich, Minding America’s Business, 344–346.
14 Rohatyn, Twenty-Year Century, 132–133.
skilled labor and more sophisticated technology, such as transmission production in automobiles (instead of assembly) or the production of specialized steel products. A second aspect of restructuring involves instituting a more participatory form of workplace organization.\footnote{Reich, \textit{Next American Frontier}, 13, 231, 247–251.}

\textit{Research and development policies.} These include expanded government support for basic research, but also government investments in the commercialization of innovations and market research.\footnote{Ibid., 352. Rohatyn emphasizes the national economy.}

\textit{Support for key industries.} Steel, autos, energy, computer, and machine tool industries are all examples of industries that have a large impact on the performance of other industries and the whole economy. Industrial policy makers should monitor the performance of these “linkage” industries “to ensure the industries’ competitive success.”\footnote{Robert Reich, “An Industrial Policy of the Right,” \textit{The Public Interest} 73 (Fall 1983): 3.}

\textit{Investment in the growth of new industries.} This aspect of industrial policy involves “picking the winners”—identifying those industries likely to be highly successful in the future. Such industries should receive government subsidy to accelerate their growth and development faster than would be possible through private financial markets.

\textit{Coordination of existing policies.} There are a variety of existing government subsidies, research grants, defense contracts, tax deductions, and other policies that influence the structure of industry. Without a comprehensive industrial policy there is no way to monitor the combined effect of these policies on the development of the economy and to assure that they promote overall competitiveness. This is a key task for industrial policy.

In arguing for a comprehensive industrial policy, advocates are quick to point out that the United States already has a set of such policies. As Reich puts it: “A nation’s industrial policy is the sum of its microeconomic policies—like tax rules, research and development grants, credit subsidies, and import restrictions—as they affect the pace and direction of industrial change.”\footnote{Ibid., 350–351, 354–356.} Industrial policy proponents identify four problems with these existing policies. First, they are inadvertent. Present industrial policy emerges as “the fallout from separate government programs designed to achieve all manner of things.”\footnote{Ibid., 6.} When policies such as defense procurement are made, little attention is given to how they affect the structure of the economy. Second, the policies are not coordinated. No agency exists to calculate the cumulative and interactive effects of the various policies.\footnote{Magazine and Reich, \textit{Minding America’s Business}, 255.} Third, because policies are inadvertent and not coordinated, the political choices and trade-offs inherent in them are rarely debated openly. Present industrial policies are thus covert in the sense that the economic merits of alternatives are not often the subject of public controversy. Finally, the uncoordi-
nated, covert nature of existing industrial policies permits their subjection to narrowly focused special interests. The result is particular policies that help narrow sectors of the economy but that may undermine its overall performance. Industrial policy is not so much an expansion of government intervention as it is a replacement of the present hodgepodge of uncoordinated intervention with a single rational industrial strategy more likely to succeed in restoring American economic competitiveness.

The specific proposals advanced for implementing such an industrial strategy vary among the various proponents. Moreover, none of the advocates have formulated a detailed blueprint for how industrial policy should be carried out. Nevertheless, despite the variation among proposals and their ambiguity, the approaches have at least two common features. First, adoption of an industrial policy requires passage into law of a variety of individual programs to reform existing ones and to add other desirable procompetitive ones. These include the changes in tax policy, worker retraining programs, tariff and subsidy reforms, and the like, which will improve competitiveness and fairness. These changes could all be accomplished by the president and Congress without any institutional change, but all the industrial policy advocates think some type of coordinating agency with the appropriate expertise needs to be created. It would recommend the procompetitive reforms described above and pursue the more ambitious program of designing a comprehensive program of industrial restructuring. The models for this industrial policy agency are foreign ones like Japan's Ministry of International Trade and Industry (MITI), though these models must be adapted to the American context. Rohatyn initially proposed creation of a new Reconstruction Finance Corporation (RFC) as an independent agency to allocate a pool of equity capital in pursuance of industrial reconstruction. More recently he has modified his proposal, suggesting that the RFC be the implementing arm of a "tripartite" Economic Development Board appointed by the president and representing business, labor, and government.\(^21\) The board, with the support of an expert technical staff, would recommend industrial policy measures and, presumably (though Rohatyn is not specific) implement those which are enacted. Neither Reich and Magaziner nor Thurov are as specific as Rohatyn, but they too see the need for some tripartite agency to coordinate industrial policy.\(^22\) This overall institutional approach can be appropriately labeled "corporatist," because it resembles those processes of policy making through national-level negotiations among government, business, and labor to which political scientists normally attach this term. It is this corporatist political strategy that raises the initial questions of political feasibility addressed in the next section.

\(^21\) Rohatyn, *Twenty-Year Century*, 34.
Corporatist Policy Making

Industrial policy advocates would like to avoid the corporatist label, perhaps because of its historical association with Italian fascism, but, although not fascist, the institutional arrangements they recommend conform to a democratic corporatist model. According to a leading comparative policy textbook, democratic corporatism is "a system of high-level bargaining and consultation between government officials and leading actors in the private economy...a process of continuing negotiation among a small number of highly organized and centralized interest groups...and an equally well organized government apparatus that is obliged by law or informal agreement to consider the advice of such groups." This type of arrangement seems to be what Reich has in mind when he calls for the creation of "a national bargaining arena" in which government, business, and labor can fashion agreements "for allocating the burdens and benefits of major adjustment strategies." Elsewhere, Reich specifies the need for "a hierarchy of tripartite boards' comprised of the elites of organized labor, big business and finance." Rohatyn's proposal for a tripartite Economic Development Board is even more clearly corporatist in character. These corporatist mechanisms are seen as essential for working out the agreements that a successful comprehensive industrial policy requires.

Why are corporatist mechanisms necessary for carrying out the industrial policy agenda? First, they are needed to build a consensus supportive of the specific industrial policy measures. Since industrial policy requires a distribution of costs and benefits among different groups, it can only succeed if there is agreement and cooperation among the affected groups. Corporatist mechanisms can provide the direct representation of affected groups in the formulation of industrial policy providing an improved form of democratic representation. Second, corporatism would provide a new coherence to industrial policy making. Existing industrial policy is presently made in a fragmented policy making system dominated by congressional committees and the courts. Such a system is only open to narrowly focused special interests, excludes affected but weak interests, and does not permit consideration of the broader public interest. This leads to a policy "of the 'do it yourself' variety spearheaded by our most politically active and sophisticated industries and firms." This existing policy-

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24 Reich, Next American Frontier, 276.
25 Reich, "Industrial Policy of the Right," 16.
26 Rohatyn, Twenty-Year Century, 34; Magaziner and Reich, Minding America's Business, 377-379; Reich, Next American Frontier, 273-274.
27 Rohatyn, Twenty-Year Century, 35.
28 Magaziner and Reich, Minding America's Business, 370-371.
29 Reich, "Industrial Policy of the Right," 8.
making pattern must be replaced by a more centralized one in which competing interest groups can confront one another face to face. Third, such a centralized policy-making arena will provide policy visibility. Industrial policy advocates object to the existing hidden and unacknowledged industrial policy making. According to Lester Thurow, "We aren't admitting what we are doing. We have a back door, not a front door industrial policy." Covert policy making leads to responsiveness to pressures from individual industries thereby producing narrowly directed policies, such as tariff protection for the Harley-Davidson Corporation, without open public discussion of broader public impacts. A more informed public debate of industrial policy will be brought about by "centralizing its administration and enhancing its visibility." In sum, the centralized corporatist industrial policy making will replace the existing fragmented system with one that is more representative, coherent, and open to public scrutiny.

It is clear from the writings of the industrial policy advocates that their preference for corporatist mechanisms arises from their critique of existing industrial policy making. Political scientists will recognize in this critique, a description of American policy making similar to that found in the works of Theodore Lowi and Grant McConnell. This pattern of "interest groups liberalism" is now one of the leading interpretations of American policy making. Covert policy making on behalf of narrow highly organized groups, excluding the weak and poorly organized and the broader public interest, is said to dominate all American public policy. If the corporatist strategy is intended to overcome a pattern of policy making which many political scientists consider characteristic of nearly all public policy making, what are its prospects for success?

Viewed from the perspective of interest group liberal theory, there is reason to doubt the potential success of these corporatist mechanisms. In fact, the corporatist policy-making model contains within itself some of the very features which McConnell and Lowi identify as leading to interest group liberal policy making. These features include broad delegation of power, direct representation of groups in the bureaucracy, informal policy making, and, implicitly, distrust of government. Instead of producing an industrial policy of greater coherence and openness, corporatist policy making would likely be as covert and incoherent as existing policy. Rather than producing a consensus among all in society, it would probably lead to a consensus among the powerful and well-organized very similar to that which supports existing industrial policy.

Comprehensive industrial policy making through tripartite boards clearly im-

17 Reich, "Industrial Policy of the Right," 12; Magaziner and Reich, Minding America's Business, 201.
19 It is interesting to note that Lowi considers the "corporatist" label to describe the pattern he is concerned with before settling on "interest group liberalism." Lowi, The End of Liberalism, 50.
plies broad delegation of congressional authority. In addition, the long list of
tasks that comprises the agenda of industrial policy making and the need for the
application of technical expertise would require considerable bureaucratic discre-
tion. One can imagine an industrial policy statute including broad delegations
of authority to “promote competitive industry in the public interest” and “ease
adjustments to industrial restructuring.” Such broad delegations are common in
the modern bureaucratic state (and perhaps inevitable), but they are also, ac-
cording to Lowi, the foundation of the interest group liberalism pattern, at least
in the United States.\textsuperscript{34} Delegation shifts interest groups pressure from Congress
to the bureaucracy, the actual site of concrete, substantive policy making. Often,
provision is even made for direct representation of interests, as in the corporatist
industrial policy-making model. Policy then emerges through informal negotia-
tions among government officials and representatives of affected interests. The
result is covert policy making in which the most organized groups represented by
technical experts have the most influence. The integration of specialized con-
gressional committees into this informal policy-making process completes the fa-
miliar “iron triangle” of interest group liberal theory.

Of course, the industrial policy advocates would agree that such delegations
have helped shape existing industrial policy, just as they agree with the overall
pattern of interest group liberal politics. Broad delegations to a tripartite indus-
trial policy agency would differ from the existing pattern, they claim, because
specific provision would be made to assure representation of all relevant in-
terests, not just narrow special interests. They would also agree that broad dele-
gations will shift group pressures to the industrial policy agency. In fact, such
a shift is to be encouraged so that such an agency can become a bargaining arena
in which the industrial policy consensus can be reached. Corporatist policy
making is supposed to provide adequate representation of all societal interests
so that the trap of iron triangle politics can be avoided. Is this claim of the indus-
trial policy advocates plausible, especially in the light of past experience with
broad delegation?

It should be pointed out that a key element in the interest group pattern of
politics is the claim that relevant interests can be more effectively represented in
bureaucratic “bargaining arenas” than in elective political institutions. Ac-
cording to McConnell, an important component of interest group liberal ortho-
odoxy is the belief that turning over public authority to specialized, sometimes
“grassroots,” organizations will provide superior forms of representation.\textsuperscript{35}
Whether it was in the creation of the Agricultural Extension Service, the Busi-
ness Advisory Council, or community action agencies, proponents saw these en-
tities as more than mechanisms for administrative implementation. They were
supposed to permit direct representation of all affected interests, including the
public interest, in the formation of policy. A major thrust of McConnell’s and

\begin{itemize}
  \item \textsuperscript{34} Ibid., 94-113.
  \item \textsuperscript{35} McConnell, \textit{Private Power}, chap. 3.
\end{itemize}
Lowi's analyses is to show that the representative reality was invariably different from this ideological claim. Instead of widely embracing all relevant interests, policy making within specialized arenas has encouraged the dominance of those groups with the best organizational capacity. In light of this experience, the familiarity of the industrial policy advocates claim should raise some skepticism. Evaluating it requires a careful examination of who they expect to serve the representatives role in industrial policy making and how the public interest is supposed to emerge.

The representative agents usually mentioned in the industrial policy literature are the tripartite "business," "labor," and "government" (sometimes "finance" is included; curiously, "farmers" are never mentioned). These representative categories are, and usually remain in the industrial policy literature, merely reified abstractions. The relevant question is: Who are the concrete groups and individuals who will fill these categories and which concrete groups and individuals will influence industrial policy making? It is likely that representatives of large well-organized groups like the U.S. Chamber of Commerce, the Business Council, and the AFL-CIO will serve on tripartite industrial policy boards. Though such groups often claim to speak for "business" and "labor" respectively, it is questionable, given the largely undemocratic character of such organizations, that they represent their own members, let alone a majority of nonunion workers or the many small and large businesses not active in business organizations. It is certainly impossible for such organizations to represent all the other societal interests outside the tripartite categories. A crucial flaw in the corporatist framework of representation is the absence in the United States of genuine "peak associations" or nationwide federations representing entire economic sectors such as labor, business, and farmers, which are characteristic of countries like Sweden, where corporatist policy making prevails. Without such organizations, no concrete group can realistically claim to represent a broad sector of society. This absence of a tradition of broad functional representation also calls into question the prospect of corporatist representation forging an industrial policy consensus. Since many individuals and groups would justifiably deny the representativeness of the corporatist arrangement, many would maneuver to block the decisions adverse to their particular interests in a manner consistent with the existing pattern of veto politics which the industrial policy advocates deplore.

Given the weaknesses of the corporatist model in the American context, it is reasonable to expect any industrial policy agent to be subject over time to the influence of those groups and firms most affected by its decisions in the familiar interest group pattern. Public policies themselves are important forces stimulating and shaping group pressures. As industrial policy makers engage in the day to day responsibility of picking winners and losers, dispensing research

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16 Ibid., 344.
17 Reich, Next American Frontier, 256.
and development grants, and promoting linkage industries, those industries and firms which receive agency support or fear to suffer from agency choices will focus their resources in order to influence policy. Industrial policy will become the specialized concern of these firms and industries and a critical factor in their organizational environments. For its part, the industrial agency will be quite open to the access and influence of its client groups because it will be dependent on them for general political support and, perhaps more importantly, the success of industrial policy.\(^{18}\) Involvement of congressional specialists will come into play, activated by group pressure in their constituencies. An industrial policy triangle or network will thus emerge involving the informal, friendly, unnoticed, if not covert, policy-making pattern described by interest group liberal theorists.

Industrial policy advocates expect an industrial policy agency to coordinate all policies of government bearing on industrial development, yet it is unlikely that this coordination function could succeed in the long run. Although many policies have an impact on industrial structure and development, this impact is likely to be a by-product of the pursuit of other objectives. Unless an industrial policy agency has an absolute veto over all policies bearing on industrial development, the influence of industrial policy specialists on other agencies and policies is likely to be weak. Those responsible for environmental, defense, and social policies can be expected to place primary emphasis on pursuing their objectives, even though these objectives might have an adverse effect on industrial development. Defense specialists, for example, are not likely to delay or modify the development of computer guided weapons systems just because an industrial policy agency points out that such developments siphon computer specialists from domestic industry. Defense planners are more likely to respond to their perceptions of technological advances in the weapons of potential enemies. Uncoordinated "back-door" impacts on industrial development are likely to persist even with an industrial policy agency. Those running such an agency will soon discover that attempts to coordinate the far-flung activities of other agencies is not as productive, nor as likely to influence industrial development, as concentrating on the industrial policy agency's own programs and serving its own clients.

A fundamental reason the proponents of industrial policy fail to break away from the interest group liberal framework is that they adhere to much of the ideological orthodoxy which supports it, particularly the distrust of government. According to McConnell, the distrust of the direct exercise of governmental authority leads to a denial of governmental power, the transfer of public authority to private groups, and the anointment of these groups as the principal policy makers for those policies affecting them. Even though industrial policy advocates seem to be in favor of increased government control of the economy, a close reading of their proposals shows substantial distrust of government, especially distrust of elected officials and electoral institutions. Their writings are peppered

\(^{18}\) A description of this pattern can be found in Francis E. Rourke, *Bureaucracy, Politics, and Public Policy* (Boston: Little, Brown, 1976).
with claims that government planning is undesirable. Since the tripartite planning boards are portrayed as extragovernmental in character, they are supposed to avoid the defects of existing government bureaucracy. Existing industrial policy making is seen as occurring in "withered" governmental institutions without the capacity to make intelligent industrial policy choices. The demand for corporatist representation itself implies a conviction that existing electoral processes and political institutions, like the presidency, Congress, and the judiciary, do not adequately represent societal interests. Since the established political arena is incapable of making competent industrial policy, new specialized institutions are required. According to McConnell and Lowi, past attempts to avoid governmental power and the direct exercise of governmental authority have contributed to the interest group liberal pattern, and the same is likely to be true of industrial policy.

In sum, the proposals for a new American industrial policy are a call to place an old American wine—industrial policy (which its advocates insist has been around a long time)—in a new bottle of corporatist industrial policy making. Their claim is that this new bottle will improve its quality and bouquet. I have argued that this bottle is not new at all, but constructed from the old interest group liberal design. A new label with a new vintage date may be attached, but the product that will eventually emerge will be similar to existing policy. It is probable that without more fundamental change than what industrial policy proponents advocate, the American political system can only produce policymaking mechanisms on the interest group liberal design. Also, it may be that existing industrial policy-making processes are inadequate to respond to foreign competition, and even that corporatist policy-making structures would be a tactic for inducing some policy changes. However, it is an illusion to see a corporatist framework forging a new consensus and producing an open, coherent industrial policy that breaks the interest group liberal mold.

**The Virtues of Political Incrementalism**

The writings of the industrial policy advocates approach decision making in a manner very close to the "rational-comprehensive" or "root method" model that Charles Lindblom describes in his classic essay, "The Science of Muddling Through." They expect to centralize industrial policy making so that goals can be clarified and a consensus formed around them. Prior goal specification will then permit a routine selection of the appropriate means to achieve them. In this way a coherent and comprehensive set of programs and policies will improve America's competitive economic position. Central coordination of all relevant programs will be achieved. And all this will be informed by the best expert anal-

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39 Reich, *Next American Frontier*, 263, 345.
40 Lindblom, "Science of Muddling Through."
ysis of the economy, the international environment, and the particular programs selected to achieve industrial policy goals.

More than just an analytical perspective, industrial policy proponents adopt a nonincremental approach to politics. They ignore the possibilities afforded by "political incrementalism."\textsuperscript{41} Such a step-by-step, piecemeal approach to altering U.S. industrial policy does not seem adequate to industrial policy advocates. Instead, they want to provoke a national debate over the issue of "industrial policy" in its totality. They seem to expect the debate to lead to the adoption of the explicit values that will inform the policy. They expect the acceptance or rejection of a coherent package of policies. If adopted, this new comprehensive industrial policy would be made through new institutional structures possessing appropriate coordinating authority and employing expert staff.

From the incrementalist perspective, this approach seems flawed in at least three ways. First, it ignores the political difficulty of reaching and maintaining agreement on values, goals, and objectives among diverse groups holding different values and representing competing interests. Second, it relies too much on the need for sound knowledge and good theories about how industrial policy goals can be achieved. Third, it requires a centralized coordination of all aspects of industrial policy, which is probably not achievable and which ignores the alternative possibility of "partisan mutual adjustment."

Industrial policy advocates seek a comprehensive debate about the goals and objectives of an industrial policy; they feel it must "rest on a strong public consensus about overall goals."\textsuperscript{42} Creating such a consensus is a principal reason for establishing a tripartite policy-making structure. Irrespective of how truly "representative" such a structure would be, it seems that if genuinely conflicting interests were represented on it, achieving consensus on broad goals would be extremely difficult. The more representative of diverse societal interests, the greater the value conflicts and the difficulty in achieving consensus. If a tripartite policy-making body reached a purported consensus on policy goals, this would mean that it had either reached an agreement based on general, ambiguous goal statements that would unravel once implementation began, or that the consensus was not adequately representative and would be resisted by unrepresented groups as it was carried out.

Incrementalists are skeptical that arguments over goals and values are likely to lead to successful policy agreements. Instead, they recommend ignoring basic value differences while debating individual concrete actions to be undertaken. By concentrating on means rather than ends, parties to policy making may reach mutual agreement on a specific course of action, even though they support it for very different reasons and have different goals in mind. An industrial policy based on a prior total "consensus" cannot take advantage of this process.


\textsuperscript{42} Magaziner and Reich, \textit{Minding America's Business}, 379.
Because industrial policy advocates seek to link ends and means explicitly, they are also likely to create coherent but complex packages of programs to achieve their ends. Such packages are not likely to be agreed to by all interested parties. As Lindblom has put it, "An operative, integrated solution to a problem is a vast collection of specific commitments all of which are implemented. The odds of agreement among political elites and citizens on these vast collections are extremely slim."43 If industrial policy advocates insist on such integrated solutions, their proposals are likely to suffer the same fate as similar past attempts to formulate "coherent" and "comprehensive" policy, such as President Jimmy Carter's energy policy.

A comprehensive industrial policy also assumes the existence of a reliable knowledge base to guide its formulation. Clear and coherent theory about how to achieve industrial reform must inform construction and adjustment of the discrete parts of a comprehensive industrial policy. Many economists question whether such reliable knowledge about industrial development exists.44 Predicting precisely which industries are likely to grow in the future and which are in decline cannot be done with certainty. Mistakes are likely to be made. If these mistakes are part of a single comprehensive industrial policy, they are likely to call into question the entire program. Adjustments to compensate for errors will be very difficult if all parts are perceived as related to a single whole. A comprehensive approach to policy would lead to periodic comprehensive overhauls to correct mistakes, undermining political support in the process. A virtue of incrementalism, as Lindblom points out in his 1959 essay, is that it does not rely on complete theoretical understanding.45 It permits experimentation, policy making through successive approximations, and incremental adjustment to correct errors. Such an approach to making industrial policy would reflect more accurately the limitations of the economic theory that must direct attempts to improve the economy.

Finally, the advocates of a comprehensive industrial policy ignore the potential of "partisan mutual adjustment" for achieving some coordination of industrial policies. They list the wide variety of separate government actions that affect industrial development and assume that these will only contribute to economic improvement if they are subject to a central coordinating agency. In his Intelligence of Democracy Lindblom elaborates the idea that "people can coordinate with each other without anyone's coordinating them, without dominant common purpose, and without rules that fully prescribe their relation to each other."46 He describes various forms of mutual adjustment ranging from market exchange to

Given the barriers to successful central coordination discussed in the previous section, improved industrial policy is more likely to result from the various forms of mutual adjustment than a probably futile attempt at central control. As more political actors become involved in public debates over industrial development, the potential for modifying something like defense procurement policy through mutual adjustment is likely to improve. Various policy actors might become more sensitive to industrial development issues; industrial policy advocates offering flexible incentives, willing to accept compromise, and sensitive to the goals of other policy makers might have considerable success. Attempting to subject all policy makers to central imperative coordination would probably induce resistance and opposition. But reasoned argument, negotiation, bargaining, even manipulation might make all policies more procompetitive, while not threatening the basic policy-making autonomy of other policy makers.

**AN ALTERNATIVE STRATEGY FOR INDUSTRIAL POLICY MAKING**

The major theme of this article is that proposals for comprehensive industrial policy are politically flawed. This is a serious problem, especially for anyone who supports the specific economic reforms proposed. Industrial policy advocates make a strong case that the American economy and industrial base are in trouble, requiring major government intervention to assure future economic growth to maintain the standard of living of Americans. Many of their specific economic proposals would probably improve the economy and ease the pain involved in restructuring industry. Because of the weaknesses discussed above, the political strategy proposed for carrying out these industrial policy reforms is not likely to succeed. Rather than pursue corporatist politics and a comprehensive "all or nothing" industrial policy, it is possible to sketch out an alternative political strategy which is likely to be more successful in reforming industrial structures.

*Be Incremental.* Industrial policy making is particularly well suited to incremental steps. According to Lindblom, incrementalism involves "a greater analytical preoccupation with ills to be remedied than positive goals to be sought."¹⁴ Industrial policy advocates have catalogued industrial policy ills and suggested specific remedies, thus setting the stage for attacking them. Instead of trying to enact reforms as a part of a comprehensive, integrated policy, the discrete remedies should be promoted on their individual merits. Such an approach will not result in a comprehensive integrated policy; some proposals will fail to be enacted. But the successful enactment of some would bring about general economic improvement. The result in terms of the objectives of industrial policy advocates would be better than that which would emerge from a protracted debate over "industrial policy."

¹³ Ibid., 21-34, 153-62.

Critics of incrementalism often object that it is a basically conservative policy-making strategy. They might object that incremental industrial policy would wed industrial change to minor variations on an unacceptable status quo. This criticism is undoubtedly correct regarding quick fundamental change in socioeconomic arrangements, such as a transformation to socialism. However, the industrial policy advocates discussed here propose an essentially reformist program, well suited to the incrementalist approach. Incremental change could, in time, alter American industrial structure in the direction advocated by Thurow, Reich, Rohatyn, Magaziner, and others. It is perhaps the preferred strategy for moderate reform in the American context. Industrial policy proponents should take to heart Lindblom's recommendations that incrementalism offers the chance of "smuggling" industrial policy changes into the system. They must, as he says, "learn paths of indirection and surprise, thus reaching objectives that would be successfully resisted were [their] program more fully revealed."

Trust existing representative institutions (presidency, Congress, judiciary). Whatever the faults of existing institutions as agencies of representation, it is not likely that any corporatist system would improve the scope of societal representation or identify the public interest more effectively. The absence of either a tradition or the organs of functional representation in the United States undermines the corporatist approach as a means of encompassing all relevant societal interests. Making industrial policy through "separate institutions sharing power" will be messy, slow, and tortuous, but the result will come closer to encompassing the public interest than a transfer of power to tripartite bodies.

Nor should we underestimate the potential of existing institutions, particularly Congress, for making good industrial policy. The current restructuring of industry is not the first transformation of the American economy. Existing institutions have devised appropriate policies to cope with economic change in the past. In specific recent decisions to affect industrial development, one can identify numerous decisions that hindsight indicates to have been appropriate. Alongside the mistakes industrial policy advocates mention, one should list Congress's successes, such as its rejection of the supersonic transport (SST); the bailouts of Chrysler, New York City, and, perhaps, Lockheed; and restructuring the railroad industry. Industrial policy advocates do not show that corporatist mechanisms would have produced better results in these instances.

Be ad hoc. The industrial policy advocates abhor ad hocism; they expect to avoid ad hoc political decisions about individual cases by devising general criteria and utilizing standard routines. They usually cite the ad hoc crisis decision making surrounding the New York and Chrysler cases as models to be

43 "Incremental politics offers the best chance of introducing into the political system those changes and those policies producing intermediate changes that a discontented citizen might desire." Ibid., 521.
50 Ibid., 521.
51 This point is also made in a recent review of Rohatyn's book by Michael Kinsley, "The Double Felix," The New Republic, 26 March 1984, 30.
avoided. However, the ultimate success of these instances of policy making raises fundamental questions about this argument. In fact, the type of decision making that actually occurred in these instances comes very close to the open, intense public decision making they advocate. The Chrysler decision, in particular, involved an open, intense public debate, centered in Congress, but also widely reported and discussed in the press. The decision was highly politicized, but in a manner in which competing interests and opinions faced each other directly.

This experience suggests that facing the problems of major industries on an ad hoc basis during periods of crisis prevents covert, unrepresentative decision making. Crisis focuses public attention and forces public debate. Creating a routinized and bureaucratized process for subsidizing distressed industries systematically might avoid crises at the cost of pushing some of these decisions out of wider public view. Ad hoc, crisis decision making would permit fundamental debate over the direction of industrial policy which is likely to serve better the public interest.

Avoid delegation. Industrial policy making cannot avoid entirely the well-entrenched pattern of interest group liberalism. Certainly the corporatist approach does not offer much chance of escaping it. An alternative strategy for coping with interest group liberalism would be to take seriously Lowi's objection to broad delegation and his recommendation for a return to the rule of law. One need not embrace completely his scheme of juridical democracy (which is probably not realistic in a modern administrative state) to see the virtue of searching for ways to reduce delegation and formulate more specific standards in law. To be practical, many industrial policies must involve a certain amount of delegation. If interest group liberal patterns are to be avoided, however, ways might be found to reduce delegation. One might formulate in congressional legislation rather precise standards about when and how government interventions should occur to guide industrial development, restructure industries, and retrain workers. For example, one could specify in legislation precise criteria for determining eligibility for receipt of worker's training vouchers, instead of leaving to industrial policy administrators the task of deciding which workers in which failed industries would receive them. Criteria regarding the extent of layoffs, the recent investment history, and the average length of unemployment within the industry could constitute automatic entitlement to training opportunities. Such an approach would require debate within Congress about general principles of industrial development that could guide formulation of these criteria. This kind of open public debate over industrial policy issues is what its advocates seek. It might just occur if Congress itself, as in the case of ad hoc decision making, formulated specific standards for industrial development.

Many who advocate a comprehensive industrial policy often cite Alexander Hamilton's Report on Manufactures as an historical model of the kind of effort they wish to undertake. The fate of that report may provide a glimpse of the future of the recent proposals for industrial policy. Hamilton's scheme was never adopted, at least not as a coherent whole. However, in the early nineteenth cen-
tury, a number of state governments carried out programs similar to those Hamilton advocated. In commenting on this experience, William Diebold has written: "That all this should be clearer, more logical, and more complete in what Hamilton wrote than in what was done in practice is perhaps another characteristic of industrial policy." Likewise, the logic, coherence, and completeness of the current industrial policy proposals will influence, but not determine, contemporary industrial policy. Clearer acceptance of this outcome should lead those concerned with influencing American industrial development to avoid the insistence on comprehensive corporatist solutions to economic problems. An incremental evolution of industrial policy is now occurring and will undoubtedly determine the future of the industrial economy. Conscious intervention to influence this evolution in desirable directions should be the political strategy of industrial policy advocates. If they insist on fighting first for a corporatist structure to cook up comprehensive solutions, their ability to influence the direction of industrial development will be diminished."


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