Lessons From the Great Demise


Reviewed by Bruce Stokes

Competitiveness, that vague but compelling concept which faded from the public lexicon after a brief flurry of interest in the mid-1980s, is poised for a comeback—with a vengeance.

Shedding the Reagan administration's ideological reluctance to involve the federal government in what conservatives have long considered to be private sector prerogatives, some Bush administration officials have begun to tentatively address the U.S.' competitiveness problem in a substantive, detailed manner.

Commerce Secretary Robert A. Mosbacher has endorsed a strong federal role in the development of high-definition television. His chief aides are busily preparing a host of new technological initiatives. And Office of Management and Budget Director Richard G. Darman has chimed in with new prescriptions for curing the economy's ills by working harder and saving more.

To date, it is unclear whether the White House is committed to following through on these initiatives. But unlike in the early 1980s, when laissez-faire was the order of the day in Washington, the administration may no longer have the luxury of doing nothing.

Competitiveness has reasserted itself as an issue because the problems underlying the country's poor international economic performance—the U.S.' relatively low productivity, the public's proclivity toward consumption rather than savings and businesses' failure to accept the challenge of competing in a global market—refuse to go away.

Two new books, When the Machine Stopped: A Cautionary Tale from Industrial America by Max Holland and Made in America: Regaining the Productive Edge by the Massachusetts Institute of Technology Commission on Industrial Productivity chronicle how the U.S. got into this fix and what it needs to do to get out of it.

Holland chronicles the demise of one machine tool builder—Burgmaster Corp. in southern California. Founded in a garage by Czechoslovakian immigrant Fred Burg in 1944, Burgmaster was by the mid-1960s the largest machine tool builder in the Western United States. Its problems began with a friendly takeover by the conglomerate Houdaille Industries in 1965. A bureaucratic, top-down management replaced the entrepreneurial, participatory management of old. Soon Burgmaster was drained of its capacity to innovate and its technological prowess. Holland has a unique, very human insight into the effect the demise of the company had on its employees, as his father spent 29 years as an employee of
Burgmaster, and it is to him the book is dedicated.

When, in 1979, Houdaille became one of the first large industrial concerns to undergo a leveraged buyout (LBO), the hand writing was on the wall. Holland asserts that "the LBO exacerbated Burgmaster's managerial problems, brought out its worst instincts, misallocated corporate resources, and made it impossible to take the steps necessary to meet the competition." In January 1986, the entire Burgmaster plant was sold at public auction.

The MIT study chronicles these same type of problems in eight industrial sectors—automobiles, chemicals, commercial aircraft, consumer electronics, machine tools, steel, textiles, and the closely related industries of computers, semiconductors and copiers.

The authors found that troubled industries pursued outdated strategies, relying on mass production of bulk commodities, while disregarding product and production process innovations by foreign competitors. Companies tended to work on short time horizons. And they failed to take a coordinated approach to product design and manufacturing. Human resources were neglected.

Finally, failures of cooperation within enterprises led to productivity sapping labor-management conflicts. The paucity of joint research and development and collective education and training among U.S. companies put many producers at a disadvantage when facing foreign industries.

Coping with the competitiveness concerns highlighted in these two books is one of the principal public policy challenges facing the nation in the 1990s. What balance is struck between public and private responsibility for solving these problems will go a long way toward determining the U.S.' future success in the international marketplace. For the most part, the authors of both works see competitiveness difficulties originating in business practices and thus emphasize businesses' role in restoring the nation's economic well-being.

But the MIT study acknowledges that "[f]irms operate in an environment shaped by federal government policies." And recent experience in Washington suggests it is unlikely that the government—both Congress and the White House—under inexorable political pressure generated by the trade deficit will be willing or able to constrain itself and wait for the business community to get its act together.

Once in office, Commerce Secretary Mosbacher lost little time in pushing his own brand of business-led industrial policy. While steering clear of budget busting federal handouts, the secretary has strongly advocated the formation of a research consortium exempt from federal anti-trust laws to create a U.S. high definition television industry. Along with Attorney General Dick Thornburgh, he has advocated extending anti-trust exemptions to the production of certain capital intensive, short life cycle products. And, Commerce is actively developing strategies to support a strong U.S. commercial presence in sunrise, high tech industries such as biotechnology, new materials technology and telecommunications.

Congress too is intent on reviving the competitiveness issue. Sen. John Glenn (D-Ohio) and Rep. Richard A. Gephardt (D-Mo.) have prepared legislation creating a civilian equiva-

lent of the Defense Department's Defense Advanced Research Projects Agency, DARPA, to lend government support to the development of commercial technologies.

All these initiatives fall far short of the industrial policy proposals of the late 1970s and early 1980s. Such restraint is supported by the MIT study, which argues that "no simple conclusions about the optimal role for government in the economy" can be drawn. "The sectoral studies do not suggest that the American economy as a whole would be substantially different or stronger if the government promoted particular firms or sectors," the authors concluded.

But, Holland notes "the United States [already] has a defunct industrial policy. When the government chooses to subsidize speculation instead of productive investment; when the government militarizes the manufacturing and research base of the economy; when the government proves incapable of educating a large number of its citizens; and above all, when the government proves incapable of managing the economy responsibly, it is formulating industrial policy that manufacturers have to contend with, whether it is recognized as such or not."

And the flurry of interest that has greeted Mosbacher's proposals suggests a new fashion along the Potomac with greater government involvement in the economy—if not in picking winners and losers, at least in insuring that some of the winners are U.S. firms. Moreover, in the face of lingering competitiveness problems, many of Washington's past philosophical inhibitions against industrial policy seem to have waned. The governing constraint today is lack of money and that inhibition could easily be swept aside in a "crisis" atmosphere that could develop out of a recession or a dramatic increase in the trade deficit.

The competitiveness issue is back in Washington and this time it may be here to stay.

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