Washington Decoded

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Mr. Young Goes to Washington

When Hewlett-Packard's CEO was named to head a commission on competitiveness, old Washington hands figured it was business as usual. How wrong they were.

By Max Holland

Days after the 1992 election, columnist Michael Schrage opined that the biggest policy-winner in Washington was a small think-tank called the Council on Competitiveness. Sure enough, when Bill Clinton subsequently unveiled his master economic program, it read like a page out of the council hymnal, emphasizing both deficit reduction and investment in infrastructure and people. And in the two years since, it is not too much of an exaggeration to assert that, aside from proposed health, crime, and welfare reforms, every significant domestic initiative announced by the White House, and a fair number of foreign ones, could be successfully dusted for the council's fingerprints.

These initiatives include the "clean car" research program to triple vehicles' fuel economy over the next decade; R&D support for the manufacture of flat-panel screens; overhaul of the Labor Department's worker-retraining programs; liberalization of export controls on advanced manufactures; especially computers and telecommunications equipment; revamping the flow of scientific and technological advice to the highest levels of government; the effort to pry open Japan's markets; a National Information Infrastructure; and least surprisingly, increased funds for technology R&D and diffusion. At a time of general belt-tightening, overall R&D spending in the 1995 budget is scheduled to increase 3 percent, with select programs like the Technology Reinvestment Project and the Advanced Technology Program enjoying multi-fold budget increases.

The Clinton administration is hardly the first to plagiarize a private think tank's agenda. The Heritage Foundation, for example, developed the blueprints for many of Ronald Reagan's policies. What is different in this instance is the scope of the change, and how it came about. Clinton's policies amount to nothing less than the most dramatic alteration in the business-government fabric since the Manhattan Project, which defined a pattern of industrial relations that persisted throughout the Cold War. No less interesting is the fact that one corporate CEO, less well-known than either Lee Iacocca or Ross Perot, has provided much of the vision and leadership for this reorganization of the government's role in the post-Cold War economy. That chief executive is John Young, and his journey began inauspiciously, during a doubles tennis match in the spring of 1983.

Young was attending one of his first meetings of the Business Council, a group of about 100 leading chief executives from around the country. These thrice-yearly gatherings enable CEOs to communicate with high government officials formally and informally. This session featured Edwin Harper, then-President Reagan's domestic-policy adviser, who discussed the government's role in technological research and development. That was a subject of natural interest to Young, CEO of Hewlett-Packard Company, the original high-technology, Silicon Valley start-up. Capitalized for $538 in 1938 to build audio oscillators (the first customer was Walt Disney), by 1983 Hewlett-Packard employed 68,000 people, was the world's largest producer of electronic instruments, and was, under Young's stewardship, well on its way to becoming a major computer manufacturer.

Hewlett-Packard was more than holding its own in the marketplace, but Young was greatly disturbed over trends such as the disappearance of America's consumer-electronics industry. On his own he had begun ruminating about the environment in which manufacturers compete. "I got interested in this subject simply as a CEO, thinking, 'Why are we losing to the Japanese?'" So Young was particularly curious about what Harper had to say. "I was looking forward to hearing about [the government's policy] because it surprised me that there was such a thing," Young recalls.

After the speech, Young met informally with Harper during a tennis match. The verbal volleying that occurred on the subject of commercial R&D overshadowed their game. "I was kind of kidding Harper after his talk to say, 'Gee, you don't have a strategy after all,'" says Young. "And so we got to bantering about what it would take."

At the time the Reagan administration had a political problem. The economy was just beginning to emerge from the 1981-1982 recession, the most severe economic downturn in 50 years. Worse, many manufacturers had suffered significant losses of market share to overseas competitors. The Democrats intended to call for an industrial policy to stanch the hemorrhaging in American manufactures.

Reagan intended to attack industrial policy as central planning in disguise, but he still needed something positive to assuage voters during an election year. So the White House decided to do what every administration does when presented with a difficult situation, especially one it prefers to ignore: They set up an advisory commission to study the problem and deliver a report before November.

Because of their tennis match, John Young was among the first people Edwin Harper called in May of 1983 to lead the President's Commission on Industrial Competitiveness (PCIC). Young's selection seemed to be shrewd and safe politics. He was a staunch opponent of the Democrats' early version of industrial policy as espoused by Robert Reich and others. Young believed their approach, which included plans for a federally-supported industrial bank, to be overly statist.

The White House announced Young's appointment in June with a flourish. If the administration was pleased with itself for having found a predictable chairman, however, in retrospect it made an enormous miscalculation. The 51-year-old Young had no intention of delivering a precooked conclusion. An electrical engineer by training, he intended to approach the panel with the same quiet but steady engineer's outlook that had propelled him to the top of Hewlett-Packard in 25 years.

One of the first things Young did was seek the counsel of David Gardner, president of the University of California system. Gardner had just finished heading the commission that produced "A Nation at Risk," an acclaimed study that bolstered public attention on the decline in public schools. The effort was all the more impressive since the White House's support had been tepid at best. From Gardner, Young learned a lot about commission dynamics: what to expect, what to avoid, how to get the right mix of views and personalities, and how to handle dissenting views. Young realized that the PCIC, as proposed, was deeply flawed. Its mechanics were too dependent on the White House and its membership overly weighted toward a congenial point of view. Organized labor wasn't even represented on the commission. Young contacted Ed Meese, then counselor to the president, and Meese agreed to find some labor representatives. After two weeks he called Young back and said the White House didn't know any labor leaders it was willing to appoint to the panel.

Young recruited the labor representatives himself, and also persuaded the former head of Morgan Stanley Group and some high-technology CEOs to join up. Simultaneously, he lobbied the administration to give the PCIC its own staff and budget rather than run it out of the White House. By the time it sat down to work, the PCIC had achieved a good deal of independence.

Young's colleagues agreed that the most important contribution the PCIC could make was to define economic competitiveness because many American's didn't believe there was a problem. A consensus first had to be forged among the commissioners, and that would not prove easy. "Practically everybody said, 'If only our exports were higher, that's it,'" recalls Young. It would take six months for the PCIC to decide just what economic competitiveness meant.

By early 1984, Young and his colleagues concluded that their report might suffer if they raced to meet the original, pre-November deadline. Their request for a delay suited the Reagan administration just fine. The economy, at least in the short term, was recovering smartly, and all potential Democratic candidates were trailing in the polls. PCIC members now concentrated their efforts on a new goal: producing a report that would profoundly influence Reagan's second-term agenda.

The report was finally presented before a Cabinet meeting in early February. Young conducted the briefing, using an overhead projector to illustrate the conclusions of "Global Competition: The New Reality." It was not calculate to please. On the most important question Young had hammered out a striking consensus, namely that the American economy had profound systemic problems. The United States, while still the world's strongest economy, was "losing its ability to compete in the world's markets." Young gored some sacred cows, notably military spending. For almost 40 years, the U.S. government had put military technology first and expected commercial benefits to trickle down. But Young averred that military R&D was now subtracting from America's stock of scientific and technological talent and success in the marketplace. What the federal government needed more than anything else, Young told his audience, was an overall strategy.

While attendance was impressive – nearly every major Cabinet secretary showed up – the discussion that followed was not. The PCIC's 32 recommendations were met with apathy, if not hostility. This was not altogether surprising, for "Global Competition" was a politically and ideologically brazen report, given the November results. It asserted that government had a role to play in the economy and that pride in having no industrial policy was an industrial policy of the worst kind. But President Reagan, a man of simple beliefs with a striking lack of intellectual curiosity, scribbled his reaction in a note to George Shultz, the gist of which the secretary of state later shared with Young. If the United States really has such economic problems, Reagan asked, why did all those foreign countries still want to be like America?

Hewlett-Packard's co-founder, David Packard, not inexperienced in Washington ways, had encouraged Young to head the PCIC but warned him that commission reports typically "go directly to the Smithsonian without going through any heads or hands." It was even more difficult to live with that reality than Young had anticipated. With U.S. manufacturers screaming bloody murder over lost market shares, Treasury Secretary James Baker engineered a quick-fix devaluation of the dollar in 1985. That was the administration's sole tangible response to the competitiveness problem.

One year after the release of the PCIC report, Alexander Trowbridge, president of the National Association of Manufacturers (NAM), stopped in to see Young at Hewlett-Packard headquarters in Palo Alto, Calif. Despite the dollar devaluation the competitiveness problem was only getting worse, he told Young, and something had to be done. You are the leader, said Trowbridge, a former Commerce Department secretary. When everybody talks about competitiveness, they talk about you. How about doing more?

That was asking a lot from Young, who is an engineer down to his marrow. A good engineer studies a problem thoroughly, develops the best solution, and then expects to persuade everyone on the merits. Young could have clung to that Jimmy Carter-style approach after leading the PCIC, content that Washington was the problem. Instead, he decided to learn how to make things happen in the capital – not in the straightforward manner typical in a corporation, but through politics in the best sense of that word. He would learn how to advance an agenda and be comfortable doing it. In retrospect, this decision marked the turning point in the struggle to get competitiveness to the top of the national agenda.

Young sounded out some of his fellow commission members and they agreed to organize a new combatant in Washington's war of ideas, a private duplicate of the PCIC. They borrowed a non-profit shell that NAM had established with the Internal Revenue Service, and Trowbridge kicked in $75,000 to get things started. Young began recruiting CEOs from corporations, universities, and unions to join, and within weeks he won the allegiance of prominent business, academic, and labor leaders. The Council on Competitiveness opened for business in August 1986. Though Washington is usually unmoved by the appearance of yet another advocate, within a few days the council's phone was ringing off the hook. Alan Magazine, the first council president, soon recognized why. Besides being composed of world-class competitors – companies like Hewlett-Packard, Motorola Inc., and Xerox Corp. – the "reason this thing flew was John Young."

Consciousness-raising is difficult to measure, but the council had a barometer: the degree to which "competitiveness" became a buzzword. Initially, Magazine had to preface his public speeches with a caveat: The council was not associated with the Olympics. After a year, however, Magazine found he didn't have to do that. "I'd test the audience and say, 'Tell me what issues we should be concerned about in terms of our competitiveness.' And the audience would throw out productivity, quality of products, and keep going and going," recalls Magazine. "They knew because of all the national publicity."

The 1988 election marked an opportunity to move from rhetoric to campaign promises, and the council sought influential advisers in every camp who were willing to plagiarize the council's agenda, if not make the election itself a referendum on competitiveness. By now its litany of proposals had become more finely honed. The council wanted the federal government to lower the cost of capital by getting the deficit under control, open foreign markets to manufactured exports, liberalize tax incentives for investment and R&D, and reorient the government's role in the manufacturing economy away from purely Cold War aims. The latter required more federal investment in universities and national laboratories, and a larger, more coordinated role for the federal government in promoting manufacturing and technological advances. To everyone's initial frustration, the race developed into one of the most content-free presidential campaigns in memory. Then in October, with the election all but over, the council's efforts suddenly bore fruit. With no warning George Bush seemingly came out of the closet as a believer in the competitiveness agenda. He called for a technology policy during a speech in Ohio and endorsed several council recommendations. For days the council was flooded with requests for what appeared to be its blueprint for the incoming Bush administration.

Initially, the new administration made several well-received moves. Bush added technology to the duties of his science adviser and announced the formation of a Council on Competitiveness in the White House to spur business growth. Access to top officials, not bad before, became better. A council delegation met with Vice President Dan Quayle for 30 minutes in February and meetings with top commerce and trade officials followed. Commerce Secretary Robert Mosbacher, in particular, appeared to be a strong ally in the council's push for comprehensive federal strategy.

Within a year high hopes became dashed expectations. Perhaps the elegant White House lunch for the council's executive committee, held in the historic Indian Treaty Room, best summed up the attitude of the Bush administration. "Here we brought in a 'Who's Who' of the top corporate and academic leaders in America," recalls Magazine.

The vice president sat at a table, completely surrounded by council members "who were there to talk about these issues and problems of competitiveness and kept regaling Quayle about recommendations we had. Every now and then he would look up from his food, and he'd ask a question, just to get it going. He didn't make one declarative sentence the entire time we were there. It was as though he didn't understand these issues, and couldn't care less."

Quayle's lack of interest was corroborated by discrete acts. The administration's Council on Competitiveness turned out to be an appeals court for business trying to escape what they considered burdensome federal regulations, as if product-liability laws were the wellspring of America's inability to compete. As important, in every internal struggle over funds for technology the council's most promising ally, Mosbacher, proved no match for John Sununu, Bush's powerful chief of staff and an avowed foe of anything that smacked of industrial policy.

The assertive, consistent leadership Young yearned for in a president was not forthcoming. Undaunted, he oversaw one council report after another that called for a marketed departure from an American industrial policy whose organizing principle had been the Cold War. He saw the Persian Gulf War, which was heralded as a triumph of American forces and technology, as underscoring the problem. "Today's leading-edge technologies in microelectronics, computers, and telecommunications are found not in Defense Department laboratories but in private industry," a council study stressed. Or as Young more vividly put it, "You probably saw the Patriot missile during Desert Storm. It's got a microprocessor that's from the Dark Ages."

Overall, gridlock marked the Bush presidency because of a raging dispute inside the White House over the government's relationship to industry. Most of Bush's accomplishments consisted of whatever congressional Democrats managed to pass despite his administration's resistance. Critical elements of Young's agenda were overlooked entirely. Young believed that "the real force in driving things ahead never quite seemed to be there," and that such leadership was Bush's responsibility. Bush had spent much of his life preparing himself to be a very fine Cold War president, but that war was over, displaced by an economic struggle that didn't interest him. He was unwilling to use one of the president's strongest tools – the bully pulpit – to exhort the country.

The 1992 election marked the third presidential campaign since Young's fixation on competitiveness had begun. Though he still considered himself a Republican, he didn't view his agenda as even remotely partisan now. He was more than willing to help any candidate – including Ross Perot – who, in turn, was willing to embrace the competitiveness agenda, and the council resolved to make the election a referendum. In retrospect, a striking number of council recommendations found their way into all the candidates' platforms, but none more so that Bill Clinton's.

The piece of paper that clinched the alliance one year later was nominee Clinton's 18-page policy paper on technology. It "made a hell of a lot of sense" to Young, which comes as no surprise after considering its provenance. When Young was asked to endorse Clinton in the fall, he said he wanted to see a position paper on technology first. Since the campaign didn't have one, Young, along with John Sculley of Apple Computer Inc. and Lawrence Ellison of Oracle Systems Corp., was asked to write it. Rather than reinvent the wheel, Young turned to Dan Burton, a council vice president, who wrote a 16-page draft based largely on the council's work. Burton sent it to Young, who made minor revisions before sending it to Apple vice president David Barram, who passed it on to the campaign in September. The result, "Technology: The Engine of Economic Growth," was indistinguishable from a council report.

Young's endorsement was seconded many times over by high-tech CEOs who believed the economy was undergoing a sea change and that presidential leadership was required to cope with it. CEO endorsements of Republicans are so routine that these defections received prominent news coverage, and it was all the more stunning because of Silicon Valley's reputation as a GOP redoubt. The overwhelming majority of CEOs still backed Bush, but the high-tech endorsements evinced grave political weakness.

The council's influence became manifest even before Clinton's inauguration during the post-election economic teach-in. Fifteen council members, including Young, participated in the deliberations, making the council the best represented group in Little Rock. The new administration became well-populated with council types: Apple's David Barram became deputy secretary of the Commerce Department, and Kent Hughes, council president since 1990, became an associate deputy secretary. As important, "there's a totally different climate about doing things," observes Young. "I am finding that there's a lot more than just sloganeering about reinventing government. People are actually setting up programs with milestones and accountability" – elements dear to every engineer.

Young is concentrating his efforts on two fronts. Although Xerox's CEO, Paul Allaire, now heads the Council on Competitiveness, Young is still a very active member. After drafting prescriptions for more than six years, the council is intent on seeing the U.S. economy get the medicine. The focus is on implementation and the council has begun a new series of annual reports benchmarking the administration's progress. Because it continues to present a consensus of the key players, the council's index keeps the administration accountable and sustains a sense of urgency.

Young expends the most energy, however, on plans for the National Information Infrastructure (NII). Talk about the so-called "information superhighway" has been at a fever pitch. More recently, the trend is to denigrate the "super*hype*way." But Young recognizes that a "bit is a bit is a bit" regardless of whether it represents voice, text, or visual information. The superhighway is surely coming and will be as transformative as the telephone and television were, bringing long-distance education, telemedicine, and virtual, paperless manufacturing. To this end, in March 1993 Young became chairman of Smart Valley, a California-based organization that will attempt to make the Silicon Valley into a test-bed for the national infrastructure. Finally, last August, Young agreed to co-chair the president's Committee of Advisors on Science and Technology, the premier source of private-sector advice to the White House.

Together with Charles M. Vest, president of the Massachusetts Institute of Technology, Young also co-chairs the council's study group on the NII. Young travels to Washington at least once a month to work on NII-related issues and meet with government officials. "The Congress and [White House] are event-driven, and [they] need people who have time to develop ideas, to test them out," says Young. So far the council has published two reports that lay out broad principles for the NII – including universal service (like the telephone system) and the notion that every business should be able to enter the highway.

The 1994 elections represent a potential setback because prominent Republicans have targeted Clinton's competitiveness agenda for the budget knife. Under the "Contract with America" advanced by House Republicans, the Commerce Department's advanced-technology program was singled out for extinction, and the whole notion of public-private partnerships in high-tech innovations promises to come under renewed scrutiny. If they do not take a scorched-earth approach, Republicans may argue for a return to federal funding for specialized defense technologies rather than the dual-use approach advocated by the Clinton administration. The next few years promise to be as interesting and contentious as any since Young began his quest.

Still, the competitiveness agenda enjoys broad support in the private sector because Young and his colleagues have always been careful to nurture consensus. Although setbacks may occur, it remains more likely that a new business-government partnership will be forged, with great implications for America's industrial organization. And over the long term, if a new business-government partnership is genuinely forged, this new relationship will redefine the ruling center of American politics for a generation, as political analyst Kevin Phillips was the first to note.

A more striking legacy from a long-ago doubles match is difficult to imagine.

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