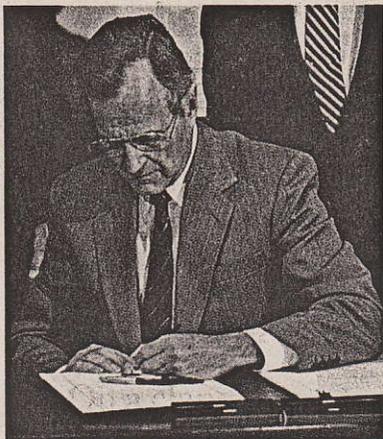


DIRCK HALSTEAD FOR TIME



THE ECONOMY

Now This Idea Is—Shh!—O.K.

Pinned down by the recession, Bush embraces a once-shunned notion — “industrial policy” — to stem the nation’s shrinking technological edge

By **MICHAEL DUFFY** WASHINGTON

In Ronald Reagan’s White House, there was no greater sin than to suggest that America could improve its competitiveness by stoking private industry with federal money. Reagan’s free-market economists launched search-and-destroy missions whenever such “industrial policy” proposals were floated in Washington. Never mind that many strategic industries in Japan and Europe, boosted at crucial moments by government support, were winning market share from their American counterparts. Reagan’s opposition to industrial policy was so fierce that the expression itself had become politically incorrect by the decade’s end. During the 1988 campaign, George Bush derided such policy as a foolish “Democratic” approach that usually resulted in wasted taxpayer money, commercial failure or both.

Today Bush and his aides are singing a much different carol. Industrial-policy initiatives that were being moved almost stealthily through the Federal Government’s bureaucracy have suddenly been brought front and center, with Bush himself acting as master of ceremonies. Last week the President signed the High Performance Computing Act of 1991, which authorizes eight federal agencies to spend \$638 million to develop hardware and software for a teraflop computer capable of performing 1 trillion computations a second. The same day, U.S. Energy Secretary James Watkins announced that the government’s 726 national laboratories—facilities that spend more than \$20 billion annually, mostly on weapons research—will now be available for joint research projects with private businesses. “U.S. taxpayers made a heavy investment in defense R. and D. during the cold war period,” said Watkins. “Now it is time to start paying them economic as well as strategic dividends.”

Still defensive about any departure from Reaganite thinking, Bush and his

aides deny that the government is meddling in the marketplace. Explained departing White House chief of staff John Sununu: “I don’t know what to call it. But there are ways of getting federal support into systems in an efficient way in which financial and technological competitiveness are not stifled.” Another Administration official was more direct: “Don’t call it ‘industrial policy,’” he pleaded. “Call it ‘George Bush’s Incredibly Forward-Looking Applied Research-and-Development Initiatives.’”

Or just call it pragmatic. As the economy sputters and fears grow that U.S. technological prowess is fading, the President and his advisers seem to have undergone an overnight conversion that was actually about a year in the making. The shift has an unmistakable back-to-the-future quality about it. During Bush’s first two years in office, his aides sheltered the free-market flame by batting away several internal proposals to put federal money on the line for emerging technologies. Several senior officials who tried to steer federal help to strategic American industries were quietly relieved of their duties. Led by the free-trade triumvirate of Sununu, chief economic adviser Michael Boskin and Budget Director Richard Darman, the White House argued that market forces, rather than government, could determine which technologies made it from the lab to the shopping mall.

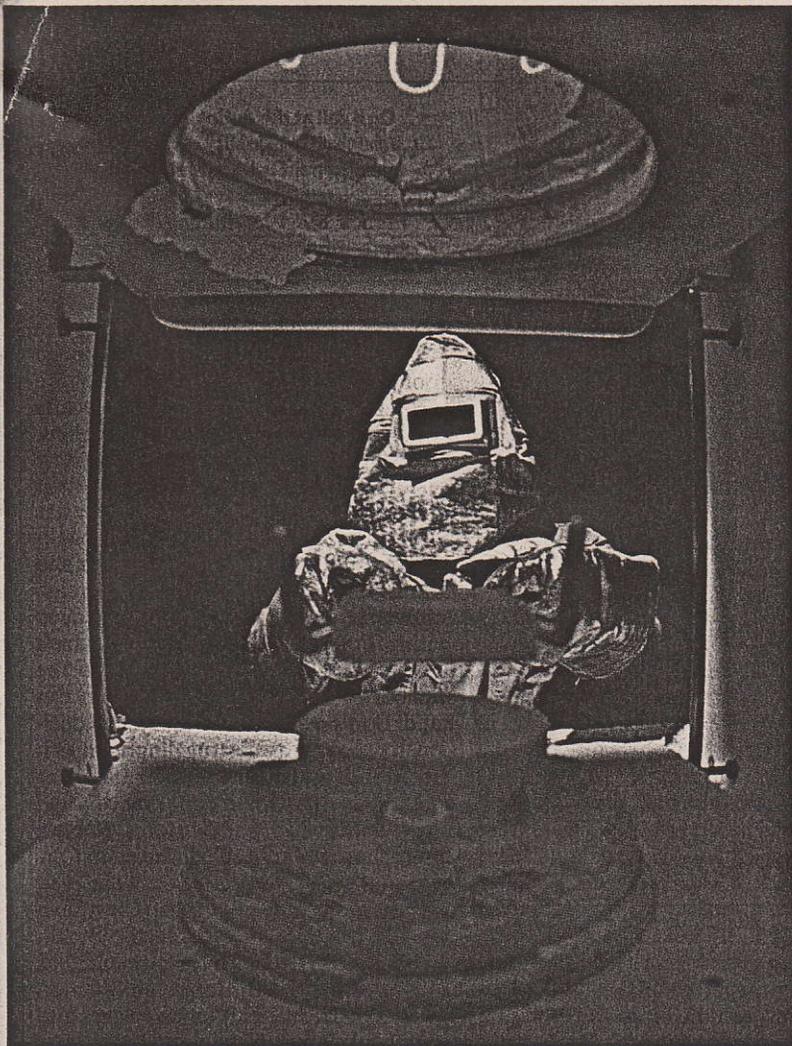
What led to the change of heart was the speed with which some of America’s most vaunted industries—computers, semiconductors and commercial aircraft—have lost domestic and worldwide market share to Japanese and European rivals. America’s technological edge—its insurance policy against economic decline—has been narrowing. Flush with cash, Japan has outsped the U.S. on investment and research, devoting nearly 3% of economic spending to nondefense research, while

American R. and D. spending remained under 2%. Four Japanese companies—Hitachi, Toshiba, Canon and Fuji—each captured more American patents in 1989 than any single U.S. firm. Predicts William Archey, senior vice president for policy at the U.S. Chamber of Commerce: “We haven’t even begun to see the products of that investment.”

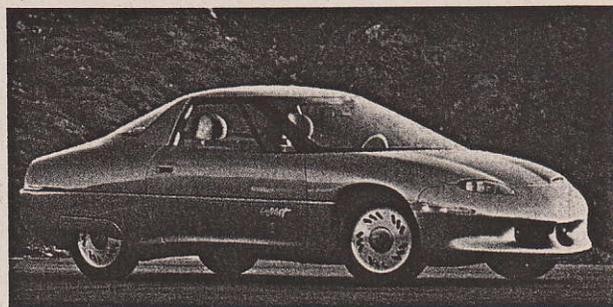
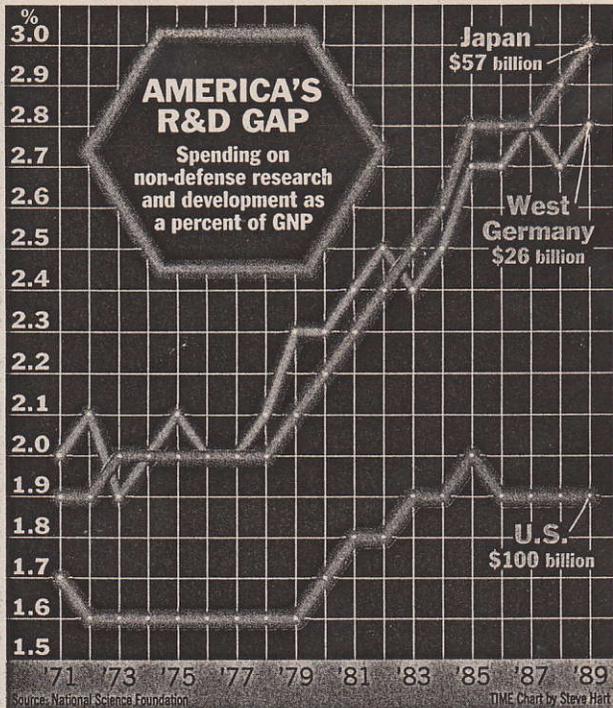
In the fiscal-1992 budget he submitted last February, Bush boosted spending for basic research 13%, but most federal R. and D. dollars still go into weapons development, which yields few mass-market spin-offs. In the past year, the warnings about that imbalance have grown starker. As the U.S. Office of Technology Assessment stated in a blunt report in October, “If there are no major changes in government policies of developed nations, we expect U.S. manufacturing competitiveness to continue to sink, compared with Japan.”

Nor is Japan the only contender. Last month McDonnell Douglas agreed to sell 40% of its commercial-jet manufacturing operations to a company owned partly by the government of Taiwan. In doing so, McDonnell Douglas cited competition from Airbus, the subsidized European aircraft consortium. Once it’s rolling, the deal could cloud one of the few bright spots in America’s economic picture: the \$16 billion trade surplus in commercial aircraft. “It’s a classic example of what’s wrong,” said New Mexico’s Democratic Senator Jeff Bingaman. “Much of the technology that McDonnell Douglas is selling was developed with American taxpayer dollars. Our government won’t support the company, so it has to look to the government of Taiwan.”

Bingaman and others on Washington’s Capitol Hill have urged the White House to identify critical technologies and invest prudently in each one. The problem for the Administration has been how to change tack without appearing to double back on the Reaganite course. After repeated



PRECIOUS MATERIALS At Lawrence Livermore, a federal lab that is cooperating with industry, a worker bakes a blend of ceramic and metal



CLEAN POWER With federal help, the Big Three will develop batteries to power cars like GM's Impact

nudges from his friends in business, Bush groped his way toward a middle-ground policy in which the government would join with private industry to help "precompetitive, generic technology." By restricting federal financing to investment in broad technologies in the early stages of development, rather than products ready for commercial exploitation, the White House insists that it can refrain from "picking winners and losers" among specific companies.

At a largely unnoticed South Lawn ceremony in October, Bush quietly welcomed industrial policy back to the White House. Flanked by representatives from Detroit's Big Three automakers, the U.S.'s electrical utilities and officials from the Energy Department, Bush signed an agreement committing the government to a three-year, \$260 million collaborative search for a small, lightweight battery to power electric cars. Calling the consortium "an idea whose time has come," Bush added, "Electric vehicles represent the next technology milestone in the auto industry, and we intend to beat our competitors to that milestone."

America's automakers realized last

year that none of the Big Three had the resources to invent on its own the car battery of the future, explains John Wallace, director of electric vehicles for Ford. But each company had at least one poorly funded battery research project under way, which, if linked with the others, could be coordinated to eliminate overlap and speed a breakthrough. So Ford, GM and Chrysler joined forces and asked the government to match their efforts dollar for dollar. "We agreed to cooperate on batteries," added Wallace, "but compete on vehicles."

Some industrial leaders are overwhelmed by the Administration's helping hand. "It is so little, so wimpy," complains Andrew Grove, president of the semiconductor giant Intel. The Hudson Institute, a conservative think tank, proposes that Washington create a new federal science-and-technology agency that would coordinate the government's widely scattered \$76 billion annual investment in R. and D. and make industry a partner at every level. "What we have now," says Hudson fellow Robert Costello, a former Pentagon official, "is a flea going up against an elephant, but the flea is growing."

Yet, as the economy staggers, Bush can be expected to move increasingly in Costello's direction. Next month the President will decide whether to double funds for the Commerce Department's advanced technology office, which dispenses grants to companies for promising technological breakthroughs. Meanwhile, Administration officials are examining the possibility of reinstating the Investment Tax Credit, killed in 1986, to boost private investment in research as well as new plant and equipment. "I want to emphasize," said Energy chief Watkins, "that this concept of a new partnership between government and industry is not about government attempting to substitute its judgment for that of experienced businessmen and free markets. It is about U.S. economic growth."

It's also about politics. Funding for basic research won't provide any quick fixes for the current recession. But at a time when Bush will have difficulty administering short-term economic remedies, notably any major tax cuts or spending increases, the President has good reason to be a visible advocate of any policy that improves the prospects for America's long-term economic future. ■

