

**7/31/80 [2]**

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FEDERAL EMERGENCY MANAGEMENT AGENCY

Washington, D.C. 20472

June 30, 1980

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

On December 7, 1979, you directed the Federal Emergency Management Agency (FEMA) to review, by June 1980, the State emergency plans in those States with operating nuclear reactors. This review has been completed. We also have conducted a review of the plans in those States where plants are scheduled for operation in the near future. Our evaluation of State plans shows that significant progress has been made in this important area of preparedness, but there is much left to be done. We shall continue with other Federal agencies to provide assistance to the States and local governments to improve their radiological emergency planning and preparedness.

In addition, as you directed, this Agency has taken the lead in off-site emergency planning and response, and is working to develop and issue an updated series of interagency assignments which would delineate agency capabilities and responsibilities and clearly define procedures for coordination and direction for both emergency planning and response. We have assured, in our continuing discussions with the Department of Energy (DOE), that the resources of that Department will be readily available and augmented as needed for radiological emergencies. The DOE plan will be integrated with the overall National Radiological Emergency Preparedness Plan which FEMA is preparing.

FEMA is also working with other agencies to develop programs for meeting public information and education needs related to radiological emergencies. Research in several important areas related to radiological emergency preparedness is being conducted by FEMA and other Federal agencies. Adequate funding for the Federal radiological emergency preparedness programs remains a problem.

We are pleased to submit to you our report on State radiological emergency planning and preparedness.

Respectfully,

John W. Macy, Jr.  
Director

Enclosure

THE WHITE HOUSE

WASHINGTON

July 30, 1980

MEMORANDUM FOR THE PRESIDENT

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FROM : Stu Eizenstat *Stu*  
Frank Press *FP*

SUBJECT: Report on State Radiological Emergency Planning and  
Preparedness in Support of Commercial Nuclear Power Plants

In response to the Kemeny Commission Report, you directed the Federal Emergency Management Agency to review the status of state emergency plans in those states with operating nuclear reactors. The report has recently been submitted with the following principal conclusions:

1. All states with operating nuclear plants are improving emergency planning and preparedness. Of 31 states affected by operating nuclear plants, 8 have submitted revised plans for review and by the end of 1980, FEMA estimates that 25 states will have upgraded their plans. Although there is progress, FEMA is "less than satisfied with the level of actual preparedness in place."

2. FEMA has moved to assume leadership of preparedness at the Federal level. The relationship with the NRC is developing smoothly and a revised Federal emergency plan will be completed by September 30, 1980.

3. The general state of knowledge on radiological emergency preparedness on the part of the public and of responsible officials has not kept pace with the needs. The general public does not adequately understand radioactivity and its effect on health and safety, and officials lack knowledge of how to plan or conduct evacuation or sheltering. FEMA recognizes that it must undertake further educational efforts.

4. Because of limitations on resources, the preparedness of state and local government with respect to radiological dose assessment technology, monitoring instruments, and the systematic and coordinated organization of personnel and resources is generally inadequate to meet the requirements of FEMA's preparedness criteria. New arrangements may be necessary to assure the adequacy of funding.

5. Greater Federal leadership is needed in planning approaches to evacuation, sheltering, and the use and distribution of potassium iodide to protect the thyroid under radiological accident situations. FEMA recognizes its responsibilities and has asked for assistance from other agencies.

FEMA is attempting to address those problems under its control and is prodding others to action. Under the leadership of John Macy, FEMA has made progress in the last year. Although the state of preparedness is still not good, it is improving. The exposure of problem areas by the report should serve as a needed additional stimulus for change.

We have transmitted the report to your Nuclear Safety Oversight Committee for evaluation.

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*SEC, Utah*

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THE WHITE HOUSE  
WASHINGTON

July 31, 1980

*Praying  
for*

MR. PRESIDENT:

SENATOR CANNON

CALLED AT 12:55 P.M.

FRANK DOES NOT KNOW

WHY HE IS CALLING BUT

RECOMMENDS YOU RETURN

THE CALL.

PHIL

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

July 30, 1980

MEMORANDUM FOR: SECRETARY MILLER  
STUART EIZENSTAT  
CHARLES SCHULTZE

FROM: JIM McINTYRE

SUBJECT: A Possible Budget Package

This memorandum is in two parts and reflects our discussions earlier this week. First, I define a package of possible budget items for our economic programs. Second, I discuss some issues of process and politics related to this package.

I. The Package. I have chosen items which, I believe, can be presented as relatively long-range, and are related to energy issues, productivity gains, or public infrastructure investments.

1. Investments in our industrial base. While the Federal Government has relatively few levers with which to affect industrial performance, since 1977 this Administration has significantly increased basic research funds, increased export funding, and supported and signed tax legislation bringing about major decreases in capital gains taxation. In the 1982 Budget, the Administration would:

(a) Propose an industrialization revitalization program:

	<u>81-82 BA</u> <u>(\$ M)</u>	<u>Direct</u> <u>Jobs</u>
Economic and Industrial Development Admini- stration	2,000	26,600 to 50,000

The new EIDA would supersede the current EDA in the Department of Commerce, and would provide expanded direct loans, guarantees and interest subsidies to development projects which alleviate

regional unemployment problems relating to changes in the structure of the economy. The EIDA would also serve in a Federal program coordination role, by "packaging" assistance from other agencies under existing authorities.

- (b) Propose further enhancements of the budget for research:

	<u>81-82 BA</u> <u>(\$ M)</u>	<u>Direct</u> <u>Jobs</u>
Increase Federal support of basic research	200	Few
Increase Industry/ University Cooperative research	75	Few
Increase Government/ Industry Cooperative research	<u>50</u>	<u>Few</u>
Total	325	Few

These proposals, while having little immediate impact on employment, may lead to long-term productivity gains. The first is intended to restore Federal basic research funds to achieve 3 percent real growth; the latter two focus on industrial research needs.

2. Enhanced Resources for Energy. Over the last decade, our economy has undergone both substantial interruptions of its energy supplies, resulting in factory cutbacks and job losses, and a chronic rise in energy prices, resulting in escalating inflation rates. This Administration has worked actively with Congress to promote the greater use of domestic sources and to assist all sectors of the economy in the more efficient use of energy.

The following proposals consist of further investments to either retrofit Federal and private structures for energy savings, or to promote greater coal use.

	<u>81-82 BA</u> <u>(\$ M)</u>	<u>Direct</u> <u>Jobs</u>
Conservation and Solar Bank- HUD	100	6,000
Public Housing Weatheri- zation-HUD	400	4,800
Hospital and School Weatherization-DOE	240	10,600
Federal Buildings Weatherization and Coal Conversion-DOE	175	Few
Coal Export Deep Channel Dredging-Army Corps of Eng.	<u>30</u>	<u>Few</u>
Total	945	21,400

3. Public Infrastructure. The Administration has made substantial investments in the nation's infrastructure. In the transportation area, for example, \$2.5 billion improvements to the Northeast Rail Corridor are underway, \$950 million will be obligated in 1981 to construct and rehabilitate bridges, and \$7.7 billion will be provided in 1981 to complete and repair the Federal highway system.

The proposals listed below would stimulate the economy through construction, rehabilitation, or repair of Federal facilities. It also includes a measure to maintain the operations of distressed cities.

	<u>81-82 BA</u> <u>(\$ M)</u>	<u>Direct</u> <u>Jobs</u>
Increase Structural Maintenance and Construction-Army Corps of Engineers	370	5,350
Increase Development and Maintenance of National Forest System-USDA	50	1,000
Replace Vehicles in GSA Motor Pool-GSA	119	4,940
Countercyclical Revenue Sharing	<u>500</u>	<u>16,700 to 22,000</u>
Total	1,039	27,990 to 33,290

4. Human Resources. The Administration has created more than 8 million jobs since the start of 1977, and has targetted budget resources to provide income assistance, work experience and training to the most disadvantaged. The proposals listed below focus more specifically on alleviating unemployment resulting from sectoral slowdowns, and would assist unemployed workers in making the transition into growing industrial sectors.

	<u>81-82 BA</u> <u>(\$ M)</u>	<u>Direct</u> <u>Jobs</u>
Positive Assistance Demonstrations-DOL	50	Few
Industry/Government Cooperation in Vocational and Technology Training- DOEd, NSF	<u>35</u>	<u>Few</u>
Total	85	Few

The total cost of all items listed above is \$4,394 M and provides roughly 76,000 to 104,700 direct jobs.

## II. Comments

1. Timing of Package. It should remain clear in all discussions that we do not expect to send new requests to the Congress this fall. The package would be proposed along with the FY 82 Budget, and any announcement of it should make that clear.
2. Merits of Package. The impact of any new spending program should be carefully weighed in light of the Administration's position on fiscal constraint. In any event, we should not recommend any new program prior to the Congress taking action on a Second Budget Resolution for FY 1981. We should make continued, and consistent concern about fighting inflation our most visible effort -- especially spending restraint.

2:00 AM



THE SECRETARY OF THE TREASURY  
WASHINGTON  
July 30, 1980

*Carlson Stewart*

*C*

MEMORANDUM FOR THE PRESIDENT

*Bill*

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FROM: G. WILLIAM MILLER

SUBJECT: Background for Meeting with Economic Advisers  
Thursday, July 31, 1980, 8:00 - 9:00 a.m.

I. THE ECONOMIC BACKGROUND

It might be useful to summarize in very broad terms the principal economic developments that are likely to be taking place over the next several years, and to spell out their implications for the economic recovery program we are trying to design.

A. On the basis of both our own and private forecasts, economic recovery will be very sluggish in 1981. Without new policy measures, unemployment will hover in the 8-1/2 to 9 percent range throughout 1981.

The principal reason why all the forecasts project sluggish recovery is the sharp rise in effective Federal tax rates scheduled for 1981 which will siphon off some \$45 billion of consumer purchasing power:

- "bracket creep," due to inflation, will raise effective personal tax rates by \$13 billion;
- revenues from the windfall tax will increase by \$17 billion; while directly collected from the oil companies, these monies ultimately come from the pockets of consumers who will be paying higher prices for decontrolled oil;
- higher social security taxes will take another \$14 billion;
- (if Congress should pass the gasoline tax, an additional \$13 billion a year would be collected starting in the second half of next year).

B. Inflation, after falling to lower levels in the months ahead, will rise into the 9 to 10 percent range in 1981. Wages and fringes are likely to rise at 10 percent a year; with productivity growing slowly (1 percent a year) and energy prices rising somewhat faster than other prices, a 9 to 10 percent inflation rate is likely. Conceivably, the recession and slow recovery could hold wage increases to a somewhat slower pace. But inflation at less than 8-1/2 to 9 percent is highly unlikely.

C. Over the next five years the share of GNP devoted to investment must rise:

- to meet our energy needs, both for alternative sources and for conservation measures (including fuel-efficient autos);
- to modernize industry and improve productivity.

Most of the added investment should be private; but in some areas, governmental or governmentally assisted investment will be needed.

D. Past history gives us no reason to believe that with fiscal and monetary tools alone we can reduce unemployment while simultaneously pulling down the rate of inflation:

- with great good luck, a large increase in investment might, after several years, get productivity growth up by 1/2 to 3/4 percentage point a year, lowering inflation by an equivalent amount;
- further long-term reductions in inflation will have to come from reduced growth in wages, salaries, and other money costs;
- if the demand for labor is growing strongly enough over the next several years to reduce unemployment significantly, it is unlikely that the rise in wages, salaries, and other money costs will grow steadily smaller.

If we start a new recovery with the underlying inflation rate never having gotten much below 9 percent, the 1980s are likely to be a decade of double-digit inflation.

II. IMPLICATIONS FOR AN ECONOMIC RECOVERY PROGRAM

- A. We need a tax cut in 1981 to help speed an otherwise very sluggish recovery.
- B. Some part of that tax cut ought to be for individuals to offset some of the large rise in effective tax rates. An income tax credit equal to the social security increase would provide such an offset while making a modest contribution (0.4 percent) to the reduction of inflation in 1981.

- C. Because of our need for more investment in the 1980s:
- a larger than usual share of the 1981 tax cut ought to be directed towards stimulating private investment;
  - to the maximum extent possible, any new or expanded government spending designed to reduce unemployment should put people to work on essential public investment (principally in the energy area) or help channel some private investments to areas with high unemployment.
- D. Because inflation will remain a major problem, we must be sure that the combination of tax cuts and expenditure increases enacted in 1981 does not lock us into large budget deficits in later years when unemployment has been pulled down.
- E. With luck, a careful budget policy should help us gradually reduce unemployment without a renewed speedup in inflation. But it probably will not result in further significant reductions in inflation.
- F. To get inflation down, while still reducing unemployment, we will have to extend and strengthen our voluntary incomes policies. The current pay and price standards made a real contribution to holding down inflation, especially in 1979. But the half life of these standards is short. By now they are being widely ignored. Trying to extend them, with minor modifications, into a third year will probably be fruitless.
- G. We need, therefore, to continue to explore possible approaches to incomes policy as part of our overall economic recovery program.

### III. POSSIBLE ELEMENTS OF ECONOMIC RECOVERY PROGRAM

#### A. Tax Policy

##### 1. Constant Rate Depreciation System

Increased investment leading to more capital per worker is the key to improved rates of productivity growth. EPG is agreed that any tax reduction program you may propose should include a liberalized depreciation system that will provide increased investment incentives, simplification, and greater certainty for the taxpayer. Treasury has developed a constant rate depreciation system (CRD) which is superior to the 10-5-3 proposal.

- CRD can be made effective immediately without 10-5-3's complicated phase-in rules and the possible adverse investment incentive.
- CRD allows nearly equal acceleration for all industries, thus minimizing the investment distinctions inherent in the 10-5-3 proposal.
- CRD has the virtue of costing less than 10-5-3 in the out years while providing greater immediate relief. CRD, which can be scaled to meet budgetary objectives, has a range of losses of \$3.0 - \$5.5 billion in the first year, \$13 - \$23 billion in 1985. (10-5-3 costs about \$4.5 billion the first year and about \$60 billion by 1985.)

Three key issues remain open:

#### Size

20% acceleration costs \$3.0 billion the first year, \$13 billion in 1985.

40% acceleration costs \$5.5 billion the first year, \$23 billion in 1985.

Treatment of Buildings

- Commercial, industrial and/or residential buildings may be included in the system (10-5-3 excludes residential).
- Buildings may be in one class (favors industrial), or in separate classes.
- Those included may have the same or lesser acceleration as compared to equipment (10-5-3 has more).

Number of Classes

- 30 classes (most defined by industry) allow nearly equal acceleration for all industries with rates rounded to whole percents.
- As few as 6 classes could be sensibly defined, but with greater variance in benefits.
- Administrative adjustment impractical if few classes.

2. Tax Credit for Social Security Taxes Paid

In January 1981, the social security payroll tax is scheduled to increase from 6.13% to 6.65% for employees and employers, and from 8.10% to 9.30% for the self-employed. EPG is agreed that any tax relief for individuals should include a refundable income tax credit of at least 7.8% for social security taxes paid. (A credit greater than 7.8% would more than offset the social security tax increase and could easily be provided for. The proposal could also be combined with a credit to individuals such as government employees and retirees not working who are not covered by social security.)

Estimated Revenue Cost (7.8% Credit):

	(\$billions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
CY liabilities	-13.1	-14.8	-16.7	-18.3	-21.2
FY receipts	- 8.3	-14.3	-16.0	-17.7	-20.1

3. Reducing the Marriage Penalty

Rapidly increasing money wages are pushing more households into the steeper portions of the rate schedule that was enacted in 1978. A family of four of median income (\$24,400 at 1980 levels) would have paid income tax of 10.4% in 1979. The same family of median income will pay 11.4% in Federal personal income taxes for 1980, and 12.1% in 1981.

The higher rates that apply to any additions to family income are felt especially by families with two wage earners.

Treasury has developed a proposal which would partially correct for the penalty. Married couples filing jointly would be permitted a special tax deduction up to 10% of the lesser earning spouse's income up to a maximum deduction of \$2,500.

Estimated Revenue Cost:

	(\$ billions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
CY liabilities	-4.7	-5.4	-6.2	-7.1	-8.2
FY receipts	-2.9	-5.1	-5.9	-6.8	-7.8

4. Taxation of Americans Working Abroad

The taxation of Americans working abroad has been identified by the Export Council as having a significant effect on U.S. competitiveness in some areas, especially for U.S. firms for when labor costs are a major part of total costs. Secretary Klutznick and Ambassador Askew, in their memorandum to you on export promotion and disincentives, have recommended that you indicate a willingness to give early and favorable consideration to appropriate measures to deal with this.

EPG has reviewed a Treasury proposal under which Americans employed in hardship areas would be permitted to exempt from tax the first \$25,000 of foreign-earned income plus 60% of the next \$60,000 (a total exemption of \$61,000 for persons earning \$85,000 or more).

The exemption would be allowed in locations where the State Department authorizes a post differential to U.S. Government employees to compensate for unhealthy or otherwise adverse living conditions. It could be tied, like the hardship deduction now in section 913, to locations eligible for a 15% or higher differential; or it could be broadened to include those for which a 10% differential is allowed (10% is the lowest). In either case, it would include all the Middle East and would exclude all OECD countries, Bermuda, the Bahamas, Rio, Hong Kong, Singapore, and South Africa.

Revenue cost: Roughly \$200 million (the cost of exempting all foreign-earned income is estimated at \$500 - \$600 million).

5. Tax Credit for Research and Development

EPG continues to review a 10% research and development tax credit for privately funded R&D expenditures on wages and equipment. The credit would be taxable and nonrefundable.

Revenue Cost:

	(\$ millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Calendar year	1,253	1,661	2,094	2,588	3,128
Fiscal year	513	1,439	1,866	2,333	2,824

Pro: Relatively neutral among R&D projects.

Utilizes the market system by allowing firms to pursue the most profitable innovation and technologies.

Brings the U.S. more in line with the R&D incentives offered by other countries.

Con: Requires new, and possibly complex, rules to identify eligible expenditures.

Rewards expenditures that would have been made without the incentive; making the credit incremental would compound the administrative problems.

May be less efficient than direct expenditures which are aimed where the need is greatest.

6. Geographically Targetted Investment Incentives

Further review proceeds on the possibility of a proposal to provide firms with an additional investment tax credit for investments made in distressed areas. Key structural issues which remain include:

- Definition of Target Area. May be a new formula (political dynamite) or based on eligibility for other programs (such as EDA, UDAG, or revenue sharing).
- Entitlement Program or Certification. All covered investment in a target area may be qualified or, alternatively, a fixed total apportioned by "certificates of necessity" as in the 1978 proposal.
- Sunset. Fixed expiration date (e.g., 2 years) would concentrate the effort and provide maximum incentive.

Key Issues:

Will marginal changes in capital costs significantly alter location decisions?

Does subsidizing inefficient locations work against productivity objectives?

Revenue Cost of Entitlement Approach (assumes 25% of machinery and equipment are in qualified areas):

	(\$ billions)				
	<u>Additional 10% Investment Tax Credit</u>				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Calendar year	4.0	4.8	5.4	6.4	7.3
Fiscal year	1.7	4.3	5.1	5.8	6.8

B. Spending Components of Economic Recovery Program

A separate memorandum prepared by Jim McIntyre describes possible elements of an economic recovery program which involve additional spending. Programs which are agreed to should be announced as part of the general statement of economic strategy.

In addition to programmatic decisions, major issues involve the timing and the degree of specificity of any announcement. Recommendation of any new program prior to the Congress taking action on a Second Budget Resolution for FY 1981 would pose substantial risks to continued progress in achieving spending restraint.

C. Incomes Policy

The current pay and price standards made a real contribution to holding down inflation, especially in 1979. By now, however, they are being widely ignored. Trying to extend them, with minor modifications, into a third year will probably be fruitless.

After reviewing many possible tax based approaches, only one proposal appears to be remotely feasible. The proposal would tie a tax cut in early 1982 to observance of a simple set of pay standards in 1981 -- i.e., those who observe the standards get a special tax cut on their 1981 incomes, paid at the time of filing tax returns in early 1982.

Pro: Strengthening voluntary incomes policies may be necessary to get inflation down while still reducing unemployment.

Con: Will generate opposition from organized labor, Republicans, and business.

"Simple" set of pay standards remains to be developed and revenue estimates generated. Proposal could be quite expensive depending upon the standard.

Effect on wage restraint is problematical.

Unlikely to be enacted.

#### IV. INDUSTRIAL POLICY

##### A. Introduction and Overview

Although American industry remains the strongest in the world, there are problems in some industries. A statement on industrial policy which would be included in any general statement of economic strategy would document these points, and then state that government played and will continue to play a role in assisting industrial growth. The program would provide assistance to industry, to communities affected by industrial change, and to dislocated workers, and include elements to strengthen or improve each of the factors that sustain industrial growth.

##### B. Investment in Private Capital and Public Infrastructure

1. A major element of industrial policy is an emphasis on capital investment from public and private sources. Many current programs already provide that emphasis. In addition, we could propose:

- The Constant Rate Depreciation System described earlier.
- Creation of a \$2 billion National Industrial Development Administration, described in further detail below.
- Commitment to ensure adequate port and transportation facilities for coal export.
- Expansion of programs for repair and reconstruction of highways and bridges.
- Investment of energy-related infrastructure: weatherization of homes, schools and public facilities.
- DOT review of the possibility of rail electrification.

2. The National Industrial Development Administration (NIDA)

The Administration has taken many important steps to achieve strong industrial growth and to assist communities and regions in transition through EDA's Development Finance Program and economic development grants, the Urban Development Action Grant programs, and the business loan and loan guarantee programs of the SBA and FmHA. Nevertheless, an expanded Economic Development Administration, to be renamed NIDA, may be needed because:

- Some changes in U.S. industry are of such scale that they have broad regional impacts on employment levels, productivity and local tax receipts. The speed and scale of these changes create hardships and dislocations to individuals and communities that demand substantial government assistance, beyond the scope and resources of current programs.
- Existing private investment and Federal, state and local support must be better coordinated to provide substantial aid to communities and regions affected by these large-scale changes.
- Some communities and major businesses in these communities require substantial transitional aid--both public and private--to help them regain economic vitality. While Federal aid should not be substituted for private resources in these cases, there are opportunities for a more effective public sector partnership to address these difficult transitional problems.

NIDA would serve as a means by which the Federal government can coordinate and use its resources, in combination with those of local government and private industry, to promote industrial investment and growth, to enhance productivity and to create private sector jobs in regions or localities which are affected by large scale shifts in our economy.

The NIDA and existing Federal programs will leverage local development efforts and private investment (including pension funds) to create productive jobs. They are not intended to substitute Federal dollars for private or local commitment. Nor are they intended to fund investments that will never be viable economically.

NIDA aid would be available if:

- (i) a region or community is experiencing or will undergo serious losses in employment as a result of a large scale industrial change or chronic deterioration in local industry;
- (ii) the relevant regional or local authority had developed an overall industrial development strategy, involving support by local government and private industry, as well as the Federal government; and
- (iii) Federal funds are necessary to ensure the viability of the strategy. An important part of NIDA's role would be to work with the private sector and local government authorities to determine whether regional and local authorities had done everything within their own power to foster industrial development and adjustment.

NIDA would be authorized to:

- Coordinate the major industrial development aid to communities and businesses that are experiencing economic problems due to large-scale shifts in the industrial sector.
- Provide assistance to finance major public investments that will encourage and support industrial development in these communities.
- Provide loans, loan guarantees and other aid to businesses that will contribute to the industrial development of these communities. NIDA may assist in the restructuring of major businesses whose survival is essential to the economic health of the community so long as such assistance is within statutory limits, is in addition to appropriate contributions from other other private and public sources, and is necessary as a transitional step to return the business to later financial independence.

C. Investment in Human Resources

Human diligence, skills and expertise are major factors in industrial growth. Existing programs cushion workers dislocated by industrial change, but more than simple income maintenance is needed.

The training demonstration program currently included in the FY 81 budget should provide information for the design of a positive adjustment program in FY 82 that provides displaced workers with opportunities and incentives for retraining and relocation. Further steps that might be taken would be placed on the agenda of discussions between labor, management, and government.

D. Restructuring Government's Relations with Industry

Reforms in the process by which government affects industry can enhance the climate for industrial growth. The past accomplishments of the Administration (particularly on regulatory reform) provide a solid record to build upon. Other initiatives being considered include:

- Creation of a tri-partite Industry Advisory Council, to advise the government on policies affecting productivity and general economic policy, as well as provide a forum for discussion of industry problems. )
- Establishment by OMB of a Regulatory Cost Accounting System during FY 82, and further exploration of the feasibility of a Regulatory Budget. )
- Commitment to review regulatory statutes to assure that they permit agency consideration of costs and the discretion to adopt cost-effective regulatory alternatives. )

E. Research and Development

Research and development and innovation are necessary for sustained industrial growth. New initiatives which EPG is reviewing include: )

- Further expansion of Federal support for R&D as described in Jim McIntyre's memorandum.
- Tax credit for R&D expenditures as described earlier.

F. Export Development

Federal efforts to improve the trade environment and to provide direct financial support for, and remove governmentally-imposed barriers to, export foster industrial growth. Proposals being reviewed include:

- Revision of the taxation of Americans overseas as described earlier.
  - Passage of legislation to permit export trading companies.
  - Expansion of Eximbank financing.
  - Continued Administration efforts to reduce export subsidies by foreign governments.
  - A commitment to measures necessary to upgrade transportation and port facilities for increased coal exports.
- 

G. Energy

Of all the industrial policy actions taken by the Administration, none is more important than the series of steps that have given us an effective and realistic energy policy. The ongoing policies include:

- Realistic pricing of energy sources to encourage conservation and production through phased decontrol of domestic crude oil and natural gas prices.
- Development of a synthetic fuels capability through the Synthetic Fuels Corporation and the provision of other incentives for development of alternative sources of energy.

- The coal conversion regulatory program which requires new industrial facilities to use fuels other than oil and gas whenever feasible and the proposed program of grants and loans to utilities to accelerate the rate of conversion to coal.
- The Conservation and Solar Energy Bank to assist homeowners to rely more heavily on conservation and solar energy.

Elements described in Jim McIntyre's memorandum on a possible budget package would, if adopted, permit greater efforts in the area of conservation (through expanded resources for the Conservation and Solar Bank, weatherization of public housing, schools, hospitals, and Federal buildings) and development of coal (through deep channel dredging for coal exports).

#### H. Other Institutional Changes

At the highest policy levels, economic policies should receive an industrial sector "screen" and economic decision-making should receive information on major sector trends, regulation, and legislative analysis, etc. One possibility would be to create a group subsidiary to EPG, e.g., the Industrial Policy Group (IPG). Alternatively, the policy screen could be located in an existing part of the Executive Office (CEA or OMB) which would be charged with being a principal resource for the EPG.

### Indicators of Industrial Performance

Those who believe serious structural problems exist in industrial performance illustrate their position by pointing out that the Federal Government has had to implement a variety of extraordinary programs to assist the economy in adjusting to shifts in U.S. comparative advantage in the footwear, basic steel, structural steel, television and automobile industries. Additional signs which seem to indicate growing U.S. industrial weakness include:

- o The rate of increase in investment in productive plant and equipment is declining. During the decade of the 1960's, business expenditures in constant dollars for new plant and equipment increased by 71 percent; during the 1970's, new plant and equipment expenditures increased by only 18 percent. Growth in capital investments as a percent of output has lagged substantially behind that of other major industrial nations. For the period 1960-1976, average capital investment as a share of output for Japan exceeded 28 percent; for Germany, nearly 20 percent; and, for the U.S., less than 15 percent. Of the ten major free world industrialized nations, the U.S. had the lowest average capital to output ratio for the period.
- o U.S. productivity increases are not keeping pace with their past performance or with that of other major industrial nations. Between 1947-1973, output per hour in the nonfarm business sector grew at 2.42 percent; for the period 1973-1979, output per hour grew at a rate of 0.54 percent. At the international level, between 1960-1978 growth in U.S. output per hour in manufacturing lagged behind the level of our major competitors. During this period, output increased at an average annual rate of 8.2% for Japan and 5.4% for Germany, contrasted to a 2.8% increase for the U.S. While the U.S. still has the highest gross domestic product per worker of any major industrial country, the productivity increases by our major competitors may soon close the gap.
- o The U.S. may be losing its lead in the development and application of new technologies. U.S. investment in research and development is much greater than in most countries, both in terms of expenditures and scientific and technical personnel. However, Japan and West Germany have been increasing their R&D investments more rapidly than the United States. Research and development as a fraction of our GNP has dropped 16 percent from 1969 to 1979. In contrast, it has gone up about 14 percent in the Soviet Union, 15 percent in West Germany, and 16 percent in Japan. Moreover, virtually all of the West German and Japanese research is concentrated in the civilian

sector, whereas in the United States more than half of our research and development is for defense. In addition, U.S. domestic patenting, one tangible output of R&D, has decreased in almost all product fields between 1971 and 1977. In short, while the U.S. continues to enjoy overall technological superiority, many of our competitors have been making major investments in R&D that may have a detrimental effect on the competitiveness of U.S. products.

- o While the nation's balance of payments improved during the latter half of the 1970s, much of the improvement is attributed to our surplus balances on services and agricultural exports, and not manufactured goods. Trade balances in manufactured goods, measured on a costs, insurance and freight basis, posted a cumulative \$16.2 billion deficit for the years 1977 through 1979, compared to surpluses of \$209.2 billion for Japan and \$159.6 billion for Germany, two major trading partners. For the decade, the U.S. share of world exports of manufactures declined from 21.3 percent in 1970 to 17.4 percent in 1979.

Discussions of indicators of possible industrial decline must be balanced, however, by review of important indicators of industrial health. As Charles Schultze pointed out, fears of a decline in our industrial base may be exaggerated. From 1969 to 1979 U.S. industrial production grew 37%, equal to that of France, better than Germany, but less than Japan. The U.S. has maintained its industrial growth since 1973, during a period of exploding oil prices, better than any of the other major countries. Moreover, as output has increased, the industrial sector has been able to increase manufacturing employment, up 4%, compared to declines of 12%, 11%, and 5% for Germany, Japan and France respectively.

#### Impediments to Industrial Health

Agreement on the degree to which the performance of the industrial sector is inadequate is not likely to be reached soon. Nevertheless, it is clear that the nation's industrial performance is failing to keep pace with the expectations of many, and that numerous policy solutions have been suggested. To help put these proposed solutions into perspective, some of the important factors that we believe to limit the present rate of industrial expansion and the flexibility of the industrial structure to respond to changes in national and international market conditions are reviewed below:

- Disincentives to investment. The issue of the allocation of resources between consumption and investment, and the degree to which tax and budgetary policies should be reoriented to shift resources from public and private consumption to the formation of capital for productive

capacity is the heart of what has been referred to as the need for "reindustrialization." Advocates of such an approach argue that the current tax structure sharply reduces incentives for productive investments. In addition, concern has been expressed that growing participation of the Federal Government in the nation's capital markets has had a two-fold impact on industrial investments—increasing the cost of capital to private investors and possibly crowding-out higher risk investments. There is a growing consensus that the rate of productive investment is, in fact, inadequate. Opinions vary, however, as to the degree to which reliance may be placed solely on policies to increase investment as a means of addressing the problems affecting industry. Nevertheless, many believe that if government macroeconomic policies were able to maintain high employment and an economic environment conducive to high investment, there would be little or no need for any other type of industrial policy.

- Diversion of capital to meet social goals. Increased regulation of business by government to achieve social objectives has diverted industry funds from directly productive capital investments. For example, approximately 18% of capital investment in the steel industry in 1979 was spent for pollution control equipment; overall pollution control expenditures rose from \$11 billion to nearly \$20 billion between 1972 and 1976. Meeting the requirements of the Clean Air and Water Acts alone is estimated by the EPA to have absorbed 5.6 percent of business fixed investment, or .6 percent of GNP in 1977. The long-run effects of such diversion, regardless of its other merits, impacts on the overall growth of productivity and the competitiveness of U.S. firms.
  
- Increased Economic Uncertainty and Change. While difficult to evaluate, the Nation's inability to maintain a stable economic environment is often cited as a reason for poor productive performance. Rapid unpredicted changes make long-run planning difficult and favor business policies which seek to maximize short run as opposed to long run production and profits. Both exogenous and endogenous factors contribute to the uncertain economic environment. For example, rapid increases in energy prices that have occurred and are anticipated to occur in the future have created substantial requirements for industrial adjustment because the high prices rendered a large proportion of the Nation's older energy inefficient capital less competitive compared to European and Japanese capital built in a era of relatively high energy prices. In addition to exogenous factors, some of the factors which create an uncertain business environment are caused by governmental policies. For example, rapid changes in monetary policies stimulated by the need to control inflation have complicated investment and financing decisions for the private

sector making efficient resource management more difficult. There is a cost to adjustment to change. Changes in policies dealing with such areas as Federal spending, regulation, trade, natural resource development, and anti-trust enforcement require compensatory and, at times, costly adjustments on the part of the business sector. The more rapid such changes, the higher the adjustment costs that must be borne.

The above list of factors which have influenced U.S. industrial performance is not intended to be comprehensive, but rather to highlight the wide range of influence producing events and forces and to indicate the varying degree to which such factors are subject to government influence. As may be seen, the impediments to a more vigorous industrial sector run deep. For example, as noted above, many agree that the resources flowing into productive investment are inadequate. However, incentives to investment have been greatly reduced by the current tax structure and by the increasing uncertainty introduced into the investment environment by rapid change. Such deep seated factors are only somewhat amenable to changes in Federal policy, and the results of such policy changes are often obtained only after a considerable period of time.

## II. The Nature of Industrial Policy

This section of the paper focuses on the degree to which industrial policy may be viewed as a solution to the industrial problems discussed above by examining the nature of industrial policy, reviewing recent U.S. industrial policy experience, and examining the lessons that may be learned through a review of industrial policy experiences in other industrialized nations.

### Alternative Views of Industrial Policy

Much of the confusion surrounding the discussion of industrial policy arises from a recurring failure to distinguish such a policy from other economic policies, and therefore to attribute erroneously to it the ability to solve all economic problems. If industrial policy is viewed as relating to the manner in which government economic actions and policies affect industry, one is left with a definition which is unworkably broad in that essentially all such actions and policies affect industrial performance to some degree. However, the degree to which "industrial policy," as opposed to some other type of economic policy, is relevant to the solution of particular problems must be

carefully examined. To facilitate such an examination it is necessary to clarify what is meant by "industrial policy."

The differing views regarding the meaning of industrial policy fall into two main categories:

A Micro View -- A micro view of industrial policy, emphasizes governmental actions which affect the allocation of resources among productive activities. It envisions adoption of government policies and programs to stimulate or discourage particular firms and industries. Some of the actions under this approach include: encouraging growth industries; modernizing essential industries; stabilizing industries and employment; and phasing out non-competitive industries. To many, this approach is what should characterize a new industrial policy. It clearly projects a "newness" in the Federal Government's industrial policy—namely, a determination to intervene much more extensively in the market to allocate resources on an industry-specific basis consistent with overall industrial objectives. Government efforts to assist the steel industry would be an example of this approach to industrial policy.

A Macro View — A macro approach to industrial policy, focuses on growth and emphasizes economic policies which promote the growth of GNP by reallocating resources from consumption to investment. Under this general approach, government develops policies and programs to assist industrial production, but unlike the previous approach the selection of the specific firms or industries which benefit from the stimulation is left to the market. This approach is commonly known as a supply side growth strategy because of its emphasis on increasing productive capacity. It relies heavily on spurring business investment through tax initiatives (such as liberalization of the investment tax credit, accelerated depreciation, reduction in corporate tax rates and rapid write-off of pollution abatement and R&D expenditures). Many prefer this approach because they wish to avoid further involving the government in decisions regarding resource allocation within the industrial sector, but at the same time are convinced that the level of productive investment in the economy is inadequate.

To a large extent the choices facing the Administration involve the degree to which its policies emphasize the micro or the macro view of industrial policy. That is, the degree to which efforts should be focused on changes needed to stimulate productive investment overall, in contrast with the degree to which efforts may be required to substitute for the market and promote particular industries selectively. The following sections focus on these issues by examining recent U.S. industrial policy experiences and the lessons which might be gleaned from industrial policy experience abroad.

### Recent U.S. Industrial Policy

The Federal Government's policies and programs may be viewed in the aggregate as constituting a de facto industrial policy. However, this de facto industrial policy neither is consistent with any overall set of compatible industrial policy objectives, nor did it evolve with such objectives in mind.

Overall the U.S. has tended to put its faith in the allocative mechanisms of the market, and generally has eschewed the extensive planning role implied by government actions intended to direct resource allocations. Nonetheless, many government actions have been designed to directly impact on industry and to influence the allocation of resources flowing to particular firms and industries. For instance, in the past the Federal Government has intervened extensively to provide direct financial assistance in response to such perceived needs as those stemming from war production requirements, capital market imperfections which restrict credit availability for investment in new businesses and desired public sector projects, and unfavorable impacts threatened by business contractions and bankruptcies. Further, there has been even more significant indirect intervention through laws involving taxes, labor relations, anti-trust, trade, environmental and safety regulations, public procurement, civil rights, etc. Such indirect impacts, while generally not designed intentionally to favor or retard specific industries, have been so significant, according to a frequently expressed business view (e.g. the recent Business Week devoted to U.S. industry), that they account for the major impediments to industrial health and growth. This Administration has already acted upon this concern that government regulation must take into account the economic costs it imposes and that deregulation should proceed expeditiously where current regulation is either unreasonably extensive or unnecessary. Most recently, the Administration has received widespread favorable response for its successful efforts to remove burdensome regulatory requirements from the auto industry. Nevertheless, many agree that much remains to be done.

In brief, while there is no doubt that in the U.S. there is a continuing and deeply held belief that it is through the market that the most efficient allocation of resources is effected, review of the recent history of Federal market intervention indicates that the Government has found it easy to exempt itself from adherence to the basic market principle. Certainly there are numerous rationales which warrant exceptions to the market principle — the need to provide for the national security, to respond to the non-market trade policies of foreign governments, or to redress the market's failure to value sufficiently societal objectives — and all can justify government action under certain

circumstances. However, in practice the government has not been vigorous in demanding proof that those justifying circumstances do in fact obtain. Further, it seems clear that in the past the government has imposed additional restrictions and costs on industry without careful examination of the ability of industry to absorb them. It is as though our long record of industrial success had convinced us that industry could shoulder any new burden without appreciable deterioration in competitive performance. However, for U.S. industry, as for the Federal Government, resource limitations have by and large removed the surplus or "cushion" that once so easily financed injudicious decisions.

Both the record of extensive Federal market intervention and the frequent shortcomings of that intervention now are generally recognized. However, there is a divergence of opinion over the best corrective course of action. Those with an interest in this subject tend to be scattered between the extremes. Some tend to favor government actions which would to the maximum extent possible reduce intervention and return to a heavier reliance on the market. In contrast with this approach, others believe that the diverse government objectives and strong interest group pressures which stimulated government intervention to begin with will not now permit a significant dismantling of programs and policies which appear to adversely affect industry. They believe that government intervention will continue to grow and what is necessary is to implement new and modified Federal institutions, programs and procedures which will provide affirmative actions to assist industry adjustment and growth. Supporters of this view argue, therefore, that rather than emphasizing efforts to reduce or remove the effects of government intervention, stress should be placed on new government interventions that tend to compensate both for current government policies and for additional market shortcomings.

Given the United States' comparatively limited experience with explicit industrial policy, it is understandable that those involved in the debate seek guidance in the experiences of other nations.

#### Lessons from Abroad

The industrialized democracies of Europe and Japan have experimented more widely than has the U.S. with explicit industrial policies involving government intervention in the allocation of resources to specific firms and industries. However, due to the varying nature of the social and economic environments within which these industrial policies were applied and the limited nature of available empirical evidence, judgments on their effectiveness are not easily rendered. Caution is necessary.

One must avoid the temptation to find whatever will suit preconceived biases. Those convinced of the benefits of explicit industrial policies will find justification for their views in the experiences primarily of Japan, a nation which has experienced rapid post-war growth. Those convinced of the dire results of explicit industrial policies will cite the less than successful economic experiences of Italy and the United Kingdom.

While many European countries and Japan have experienced remarkable economic growth over the last two decades, there is substantial question regarding the degree to which explicit industrial policies favoring specific industries accounted for this growth. It must be remembered that most European nations and Japan emerged from World War II with highly skilled and mobile labor forces, national commitments to reconstruction, and an ability to import and effectively use capital and technology from the United States. Even today a portion of Japan's rapid growth is attributable to such factors as a savings rate of 30 percent of GNP, aggressive entrepreneurs, and a system of labor relations which makes it extremely easy to introduce changes on the shop floor.

Some insight into this issue is gained from an examination of specific instances of intervention. Perhaps the most well known involves the successful Japanese program to modernize the steel industry. In this case, low interest government loans, special depreciation allowances and exemption from duties for capital goods imports, all sharply reduced the cost of new steel plants and contributed to a remarkable growth of the industry. The success of Japanese government intervention in promoting steel, however, is matched by a number of examples of the failure of such intervention. For example, during the 1960's the Germans targeted selective assistance to three industries which were regarded as offering good growth prospects: energy, computers and aerospace. All three industries proved disappointing while the workhorses of German growth--autos, chemicals and machine tools--performed exceptionally well without special help. Similarly, the French have been involved in a costly and disappointing attempt to develop a computer industry.

Overall, few general lessons stand out. The available evidence does not support the view that selective industrial policy has played a crucial role in the economic growth of Japan, Germany or France. In general, such policy has selected for assistance "losers" (inefficient firms or industries requiring continued subsidization) as often as "winners" (firms or industries likely to contribute to the nation's economic health). It does appear that foreign nations which have enjoyed rapid industrial growth are those which have been able to minimize adversarial and confrontational relationships among government, industry and labor. Foreign countries have sought cooperation among

these groups in the reorientation of government policies, in the reform of business strategies and practices, in improving the fairness, discipline and creativity of labor-management relations, and in enhancing the efficiency of productive processes. The experiences of Japan and to a lesser degree of Germany, suggest such cooperation can produce significant benefits.

Unfortunately, beyond these few basic ideas, foreign experience provides little specific guidance for structuring an industrial policy. It is worth noting, however, that based upon analysis of its member countries' industrial policy efforts, the Organization for Economic Cooperation and Development (OECD) has published a set of principles (shown in Attachment A) intended to evaluate government involvement in the private sector. Implicit in the principles is the OECD's conclusion that government's major role in assisting industry should be to assure a properly functioning market as the primary vehicle for achieving the efficient allocation of resources. OECD suggests that when discretionary market intervention is warranted, it should be limited in scope and duration and be of a type that facilitates long term growth and stability.

### III. Industrial Policy Principles

It is certain that in the near future this Administration will be presented with a number of proposals put forward as characterizing and advancing a new industrial policy. These proposals undoubtedly will have narrow industrial as well as wider economic policy implications, and seem certain to deal with at least the following subjects: investment in productive plant and equipment; research and development; labor adjustment; labor/business/government relations; export programs; Federal regulations; anti-trust; Federal procurement; and Federal credit programs.

It is unlikely that there is any significant disagreement over whether these subjects are reasonable candidates for inclusion in an industrial policy package. What is uncertain, and what will be decided during the coming debates over specific proposals, is the extent to which the package adopted represents a departure from our current de facto industrial policy, and movement toward a philosophy based on expanded Federal market intervention in U.S. industry. A critical question will be the degree to which the government chooses to become involved in the stimulation of specific firms and industries. Taken in total, the package likely will be interpreted as representing the Administration's view of the proper future role of the Federal Government in the U.S. economy.

### The Development Bank Proposal

A major example of the industry specific approach is the proposal to create a kind of RFC-type of development bank to provide investment capital directly to selected firms and industries. This proposal thus far has been discussed in only general terms and obviously any in-depth evaluation must await more definitive recommendations. Nevertheless, since it is the central theme of prominent individuals outside the Administration who recommend a more interventionist role for the Federal Government, and because it provides such a good example of industry specific intervention, it warrants a preliminary review here. However, because there is no specific detailed bank proposal, such a review at this time must focus on the conceptual nature of a bank. The degree to which a specific proposal would match this conceptual extreme cannot be known at present. Nevertheless, the concept itself raises the following significant considerations.

First, one of the major reasons cited for inadequate industrial performance is a shortage of investment in productive capital. Some supporters of the bank concept appear to assume a government sponsored development bank would provide new capital. However, the establishment of a Federal development bank would not, in itself, generate any additional investment funds in the economy. Rather, its role primarily would be that of substituting for the market in determining the allocation of capital among competing uses. Unfortunately, however, there is substantial disagreement over whether such a bank could allocate better or more efficiently than the capital market.

Clearly, the market is not infallible; it can fail to provide capital upon reasonable terms and conditions to business ventures which, in fact, have viable long-range futures—this Administration recently concluded that was true, for example, in the case of the synthetic fuel industry. However, publicly made capital allocation decisions, while they can support viable ventures, can also easily result in the subsidization of unprofitable, declining firms. Even if the pitfall of having investment decisions unduly influenced by political considerations is avoided, the government's ability to differentiate "winners" from "losers" is seriously questioned. Further, unless it is believed that there is a widespread market failure to allocate capital to viable or potentially viable industries, it is not clear why the alternative of addressing the few instances which might arise on a case-by-case basis (e.g. synthetic fuels and solar energy) is not preferable. Thus, the bank's supporters should be requested to justify the benefits expected to derive from the bank in terms of a more efficient allocation of resources.

Second, because U.S. industrial problems appear to involve many complex and varied causes, it is unlikely that any single solution or institutional arrangement would be well suited for providing the remedies. Therefore, any proposal for an industrial bank would require the addition of other elements to provide for a multifaceted program. Such an expanded program would need to contend with the reality of the constrained budget situation. Thus, a prior decision to fund a development bank, which must be large if it is to have a noticeable impact on the pattern of productive investment, would be expected to severely restrict the funding available for other industrial programs. Attention, therefore, would have to be devoted to whether establishment of a bank would be likely to result in benefits greater than those foregone because of the budget pressures it created for other potential industrial policy initiatives (or for any new budget initiatives for that matter). Proponents of a bank proposal should be requested to clearly demonstrate how the bank would fit with other industrial policy initiatives so that it may be viewed in the context of a unified industrial policy package.

The above discussion is not meant to imply a definitive judgment regarding the proposals for an industrial bank or other possible forms of firm or industry specific government involvement. It does indicate, however, that substantial questions are apparent in the conceptual outlines of such proposals which must be addressed if effective specific bank or similarly targetted proposals are to be developed.

### General Principles

The preceding discussion provides an example of the considerations that an industrial policy debate must raise. The following general principles provide a framework within which such considerations can be evaluated.

- There should exist a rebuttable presumption against government intervention. In general, a free competitive market will allocate resources among competing units of production in a manner which maximizes total output. There are reasons for intervention in the market (e.g. national security, market distortions, etc.), but the burden of proof for government intervention should rest on those arguing for proposals which are not neutral among productive sectors. Moreover, past interventions in the market by the Federal Government

should be considered as exceptions to our basic market oriented philosophy rather than established precedents for future market intervention.

- The scope of proposed solutions to industry problems must be in keeping with our present level of knowledge regarding the degree to which the economy is or is not performing effectively and the manner in which present or proposed government actions impact on industrial performance.
- When government intervention is contemplated, the full costs of such actions should be considered and made as evident as possible to decisionmakers and the public at large. This includes costs to consumers of actions which raise prices, costs to taxpayers, and the effects of subsidized competition in non-assisted industries.
- Where government intervention is contemplated to support employment in a particular area, consideration should be given to action that can benefit any eligible company in the area concerned, rather than only those in financial difficulty.
- Any proposal should be examined in the context of clearly stated industrial policy objectives and should be consistent with overall economic and fiscal policies and goals.

If a new U.S. industrial policy, however ultimately defined, is to be explicit and purposeful, it must be designed in a consistent manner. This will only happen if the numerous proposals are subjected to specified criteria such as those suggested above.

## ATTACHMENT A

The seven basic principles proposed by the Organization for Economic Cooperation and Development as a guide to government intervention in the private sector include:

- Action should be temporary and should, wherever possible, be reduced progressively according to pre-arranged timetable.
- Such action should be integrally linked to the implementation of plans to phase out obsolete capacity and re-establish financially viable entities.
- The cost should be made as evident as possible to decisionmakers and the public at large. Careful attention should be paid to the cost to consumers of action which raises prices, to the cost to taxpayers, and to the effects of subsidized competition on employment elsewhere.
- Where public funds are being injected into the private sector, it is desirable that private risk capital should be involved.
- Assistance given on a company-by-company basis should be framed so as to provide an incentive for improved management practices, notably by ensuring sufficient domestic and international competition.
- Where the primary objective is to support employment in particular regions or towns, consideration should be given to action that can benefit any eligible company in the area concerned, rather than only those in financial difficulty.
- While recognizing that governments must pay due regard to the interests of national security, care should be taken to see that arguments based on considerations of self-sufficiency should not be misused to justify measures for industrial protection and support.

## INDUSTRIAL POLICY

### I. Background: Nature of the Problem

A nation's industrial structure changes continuously. Industrial production must respond to underlying demographic, institutional, social, and economic changes. Various industries are required to expand and contract to readjust to the demands of domestic and international markets if our economic health and international competitiveness are to be maintained. But, while change seems to be a fact of industrial life, within the last decade questions have arisen regarding the ability of U.S. industry to respond to major changes in domestic and international markets without governmental assistance. In part these questions have resulted from dissatisfaction regarding the impact of the adjustment process on particular groups or regions. In part they have also resulted from dissatisfaction with the impact of the adjustment process in industries considered crucial to the nation's economic health. Recent crises have given rise to the issue: Need the United States develop a more explicit industrial policy to facilitate economic adjustment?

Little agreement exists with respect to the meaning of the term "industrial policy" or to the specific problems that such a policy should address. In general, there is a growing consensus that our industrial performance is not keeping pace with national expectations. On this premise, numerous proposals are likely to be advanced with the objective of improving the nation's industrial performance. To assist you in evaluating these proposals, this paper reviews a number of economic problems affecting the nation's industrial base, considers the nature and past use of "industrial policy" in the U.S. and abroad, and discusses its possible use in our current economic situation.

In examining our industrial problems, it is important to distinguish between structural and short term cyclical problems. Making this distinction is difficult because recessions accentuate structural problems by temporarily reducing aggregate demand across the entire economy. Indeed, some basic industries affected by structural problems at present, such as autos and steel, are among those damaged most by recessions. The material which follows concentrates on the underlying structural problems of our industrial base. It should be emphasized, however, that a large part of the recent poor performance of many basic industries is due to the present recession and is more effectively addressed in that context rather than through the use of industrial policy.



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# **Report to the President**

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**State Radiological  
Emergency Planning and  
Preparedness in Support  
of Commercial Nuclear  
Power Plants**

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**June 1980**