99TH CONGRESS 2d Session | HOUSE OF REPRESENTATIVES | REPORT 99-579

COUNCIL ON INDUSTRIAL COMPETITIVENESS ACT

MAY 6, 1986.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ST GERMAIN, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL, MINORITY, AND DISSENTING VIEWS

[To accompany H.R. 2373]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 2373) to improve the industrial competitiveness of the United States, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SHORT TITLE

SECTION 1. This Act may be cited as the "Council on Industrial Competitiveness Act".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress hereby finds that—

(1) the preeminence of the United States in international industrial competition is seriously threatened and the insulation of United States domestic markets from international competition is at an end;

(2) the United States has been slow to accept and adapt to the reality of a highly competitive global marketplace and to regard the industrial development of competing countries as a challenge and an opportunity for its own economic growth;

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(3) some major consequences of this failure to adapt are unnecessary plant closings, high unemployment, and a deterioration in the quality of jobs available for American workers;

(4) to be successful in the world arena, the United States must address the erosion of comparative advantage of its basic industries in a number of areas, including innovation, investment, and productivity;

(5) efforts to revise the decline of American industry have been hindered by a number of factors, including—

(A) a long-term decline in relative productivity growth;

(B) insufficient capital investment in the revitalization of basic industries and in the commercialization and diffusion of new technologies;

(C) a lack of adequate patient capital to invest in smaller, innovative firms;

(D) insufficient investment in civilian research and development in comparison with our major competitors;

(E) a series of systemic inefficiencies in the management and organization of business, including adversarial labor-management relations and short-term time horizons; and

(F) a serious erosion in the institutional support for production, including a lack of high quality domestic and international economic data needed to—

(i) reveal sectoral strengths and weaknesses;

(ii) identify potential new markets and future trends; and

(iii) provided necessary information regarding the industrial strategies of our foreign competitors;

(6) helping to support the competitiveness of United States industries is a proper and necessary role for government, working with the private sector;

(7) at present, industrial policy in the United States is composed of a variety of Government programs, subsidies, and regulatory oversight functions which often are not coordinated, cohesive, or consistent;

(8) while our economy benefits when business, labor, government, academia, and public interest groups work together cooperatively, there exists no effective, high-level forum for developing a consensus on economic policies;

(9) the decline in United States industrial competitiveness endangers the economic stability of the Nation;

(10) such decline also endangers the ability of the United States to maintain the defense industrial base which is necessary to the national security of the United States;

(11) progress on the issue of competitiveness requires a recognition that the world is moving rapidly toward the creation of an integrated and interdependent economy, a world economy in which the policies of one nation have a major impact on other nations;

(12) effective management of such an integrated world economy requires a significant increase in multilateral solutions to such issues as trade, tax, investment, and the distribution of world markets and world production;

(13) effective participation by the United States in this process has been inhibited by the lack of specific mechanisms—

(A) to identify the problems of particular industries and sectors; and

(B) to develop specific solutions to those sectoral problems within the broader range of national economic policies;

(14) such lack of specific mechanisms has been particularly harmful to those labor intensive industries which must compete with very low wages paid in foreign countries;

(15) it is now imperative that Government, business, labor, academia, and public interest groups act together to develop and coordinate long-range strategies for helping to assure the international competitiveness of United States industries; and

(16) such strategies should be balanced by—

(A) encouraging the development of emerging industries which can provide substantial economic growth and employment; and

(B) directing resources into the revitalization of mature and linkage industries.

(b) It is the purpose of this Act—

(1) to develop recommendations for long-range strategies for promoting the international competitiveness of United States industries; and

(2) to establish the Council on Industrial Competitiveness which will—

(A) gather and analyze information regarding the competitiveness of United States industries;

(B) create an institutional forum where national leaders with experience and background in business, labor, government, academia, and public interest activities will—

(i) identify economic problems inhibiting the competitiveness of United States industries;

(ii) develop long-term strategies to address such problems; and

(iii) create a broad consensus in support of such strategies; and

(C) make recommendations on issues crucial to the development of coordinated industrial strategies.

ESTABLISHMENT

SEC. 3. There is established in the executive branch of the Government an independent agency to be known as the Council on Industrial Competitiveness.

DUTIES OF THE COUNCIL

SEC. 4. The duties of the Council are—

(1) to develop and promote policies which enhance the productivity and international competitiveness of United States industries;

(2) to assess private sector requests for governmental assistance or relief and to recommend, as a condition of such assistance or relief—

(A) those actions of the private sector which will ensure that the applicant involved, by receiving the assistance or relief, will become internationally competitive in the future; and

(B) any adjustment commitments which should be entered into by relevant parties, such as management and employees of the applicant, shareholders, creditors, suppliers and dealers, and financial institutions, to ensure that the applicant will become internationally competitive in the future;

(3) to collect and analyze relevant domestic and international data concerning current and future economic trends and market opportunities;

(4) to monitor the changing nature of the United States industrial economy and its capacity—

(A) to provide marketable goods and services in domestic and international markets; and

(B) to respond to international competition;

(5) to prepare and publish reports containing the recommendations of the Council with respect to industrial development priorities;

(6) to create a forum or forums where national leaders with experience and background in business, labor, academia, public interest activities, and Government will—

(A) identify national economic problems;

(B) develop recommendations to address such problems; and

(C) create a broad consensus in support of such recommendations;

(7) to establish industry subcouncils of public and private leaders to develop similar long-term strategies for sectors of the economy;

(8) to provide policy recommendations and guidance to the Congress, the President, and the Federal departments and agencies regarding specific issues concerning industrial strategies;

(9) to annually report to the President and the Congress—

(A) on the state of the national economy;

(B) on the state of major sectors of the national economy; and

(C) on the effect of existing Government policies on industries;

(10) to review and evaluate specific policy recommendations developed by the industry subcouncils and transmit such recommendations to the implementing agencies concerned; and

(11) to evaluate existing Government policies and business practices in terms of the competitive impact of such policies and practices.

MEMBERSHIP

SEC. 5. (a) The Council shall be composed of sixteen members as follows:

(1) Four members appointed by the President, who shall be heads of Federal departments or agencies, Members of Congress, or representatives of State or local governments.

(2) Four members appointed by the President, by and with the advice and consent of the Senate—

(A) who shall be national leaders with experience and background in business, including at least one individual selected from the small business community; and

(B) who shall have a broad understanding of the United States economy and the United States position in the world economy.

(3) Four members appointed by the President, by and with the advice and consent of the Senate—

(A) who shall be national leaders with experience and background in the labor community; and

(B) who shall have a broad understanding of the United States economy and of the United States position in the world economy.

(4) Four members appointed by the President, by and with the advice and consent of the Senate, each of whom—

(A) shall be selected from the academic community or have been active in public interest activities; and

(B) shall have a broad understanding of the United States economy and of the United States position in the world economy.

(b) The Council shall not commence its duties until all the members specified in paragraph (2), (3), and (4) of subsection (a) have been appointed and have qualified.

(c)(1) A vacancy in the Council shall be filled in the same manner in which the original appointment was made.

(2)(A) Any member appointed to fill a vacancy occurring before the expiration of the term for which a member's predecessor was appointed shall be appointed only for the remainder of such term.

(B) A member may serve after the expiration of such member's term until such member's successor has taken office.

(d)(1) No member may serve more than two consecutive terms.

(2) Members of the Council may be removed by the President only for malfeasance in office.

(e) Not more than nine members of the Council shall be of the same political party.

(f)(1) Members appointed under paragraphs (2) through (4) of subsection (a) shall be appointed for terms of six years.

(2) Of the members first appointed under paragraphs (2) through (4) of subsection (a)—

(A) three shall be appointed for a term of two years;

(B) three shall be appointed for a term of three years;

(C) three shall be appointed for a term of four years; and

(D) three shall be appointed for a term of six years; as designated by the President at the time of appointment.

(g)(1) Each member of the Council who is not otherwise in the service of the Government of the United States or any State or local government—

(A) shall receive a sum equivalent to the compensation paid at level II of the Executive Schedule, pursuant to section 5315 of title 5, United States Code, prorated on a daily basis for each day spent in the work of the Council; and

(B) shall be paid actual travel expenses, and per diem in lieu of subsistence expenses when away from his usual place of residence, in accordance with section 5703 of such title.

(2) Each member of the Council who is otherwise in the service of the Government of the United States or any State or local government shall serve without compensation in addition to that received for such other service, but while engaged in the work of the Council shall be paid actual travel expenses, and per diem in lieu of subsistence expenses when away from his usual place of residence, in accordance with subchapter 1 of chapter 57 of title 5, United States Code.

(h) Nine members of the Council constitute a quorum, except that a lesser number may hold hearings if such action is approved by a two-thirds vote of the entire Council.

(i)(1) The Council shall elect, by a two-thirds vote of the entire Council, a Chairman from among the individuals appointed under paragraphs (2) through (4) of subsection (a).

(2) The Chairman shall serve full time.

(j) The Council shall meet at the call of the Chairman or a majority of its members, except that the Council shall meet not less than six times during each calendar year.

(k)(1) Each member of the Council shall designate one alternate representative to attend any meeting that such member is unable to attend.

(2) In the course of attending any such meeting, an alternate representative shall be considered a member of the Council for all purposes, including voting.

(l)(1) Except as provided in subsection (j), no action whatsoever (whether involving administrative or personnel matters, establishing policy, or any other type of action) shall be taken by the Council unless approved by two-thirds of the entire membership of the Council.

(2)(A) If a two-thirds consensus, as required under paragraph (1), cannot be reached on a matter referred to the Council by the President, or either House of Congress, the Council shall transmit a report to the President and both Houses of the Congress explaining why a consensus could not be reached on such matter.

(B) Such report shall include all information gathered by the Council on such matter and a list of potential policy options for addressing the concern involved.

(m) The Council may procure temporary and intermittent services under section 3109(b) of title 5, United States Code, but at rates for individuals not to exceed the daily equivalent of the maximum annual rate of basic pay for GS-16 of the General Schedule.

(n) Upon request of the Council, the head of any other Federal agency is authorized to detail, on a reimbursable basis, any of the personnel of such agency to the Council to assist the Council in carrying out its duties under this title.

(o)(1) An individual may not be appointed as a member of the Council if, at any time within the 1-year period ending on the date on which any such appointment would otherwise be effective, such individual has acted as an agent or attorney for, or performed any other professional service for or on behalf of, the government of any foreign country, any agency or instrumentality of the government of a foreign country, or any foreign political party.

(2) If, after an individual is appointed as a member of the Council, such individual acts or performs in any manner or capacity described in paragraph (1), such individual shall cease to be a member of the Council as of the date such individual acts or performs in such manner or capacity.

EXECUTIVE DIRECTOR AND STAFF

SEC. 6. (a)(1) The principal administrative officer of the Council shall be an Executive Director, who shall be appointed by the Council.

(2) The Council shall consult with the President and leaders of the Congress before appointing an individual to the position of Executive Director.

(3) The Exectuive Director shall serve full-time.

(b) Within the limitations of the Council's appropriations, the Executive Director may appoint the personnel of the Council in accordance with the civil service and classification laws.

POWERS OF THE COUNCIL

SEC. 7. (a) The Council may, for the purpose of carrying out the provisions of this Act, hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence, as the Council considers appropriate. The Council may administer oaths or affirmations to witnesses appearing before the Council.

(b) If so authorized by the Council, any member or agent of the Council may take any action which the Council is authorized to take under this section.

(c)(1)(A) The Council may secure directly from any department or agency of the United States information necessary to enable the Council to carry out the provisions of this Act.

(B) Upon request of the Chairman of the Council, the head of such department or agency shall furnish such information to the Council.

(2) In any case in which the Council receives any information from a department or agency of the United States, the Council shall not disclose such information to the public unless such department or agency is authorized to disclose such information pursuant to Federal law.

(d) The Council may accept, use, and dispose of gifts or donations of services or property.

(e) The Council may use the United States mails in the same manner and under the same conditions as other departments and agencies of the United States.

(f) The Administrator of General Services shall provide to the Council, on a reimbursable basis, such administrative support services as the Council may request.

(g)(1) The Council shall establish, when and for such period of time as the Council deems appropriate, industry subcouncils of public and private leaders representing the major economic interests affected by sectoral policies.

(2) Subcouncil members shall serve on a part-time basis.

(3)(A) Such subcouncils shall examine the competitive problems facing individual industries in the economy and develop recommendations regarding long-term strategies which could improve the competitiveness of such industries.

(B) In the course of developing recommendations, the industry subcouncils shall hold such hearings, sit and act at such times and places, take such testimony, and receive such evidence as such subcouncils considers appropriate.

(4)(A) The industry subcouncils shall report their findings and recommendations to the Council.

(B) Where appropriate, each of the subcouncil's reports shall assess the effectiveness of employee ownership as one of the tools and long-term strategies for improving the competitive problems facing the industry.

(C) The Council shall review the findings and recommendations of the subcouncils in preparing the Council's recommendations.

EFFECTS OF IMPORTS ON DOMESTIC INDUSTRIES

SEC. 8. (a) The Council shall examine and make available to the public all international agreements on foreign trade that have been agreed to by the United States.

(b) The Council shall continuously monitor, and maintain public records regarding, the effect of imports on all major United States industries and on such other United States industries as may be specified by the Council.

REPORTS

SEC. 9. (a) Not later than one year after the date of the enactment of this Act, the Council shall transmit a report to both Houses of the Congress and the President containing recommendations of the Council for changes in any Federal policy necessary to implement effective industrial strategies.

(b)(1) The Council shall annually prepare and transmit to the President and to each House of the Congress a report setting forth—

(A) the major industrial development priorities of the United States;

(B) the policies needed to meet such priorities; and

(C) A summary of existing Government policies affecting industries.

(2) Such report shall contain a statement of the findings and conclusions of the Council during the previous fiscal year, together with any recommendations of the Council for such legislative or administrative actions as the Council considers appropriate.

(c)(1) Upon receipt by either House of the Congress, the report shall be referred to the appropriate committee or committees of each House.

(2) The Council shall consult with each such committee with respect to such report and, following such consultation, each such committee shall submit to its respective House a report setting forth the views and recommendations of such committee with respect to the report of the Council.

AUTHORIZATION OF APPROPRIATIONS

SEC. 10. There are authorized to be appropriated for fiscal year 1987 not to exceed $25,000,000 to carry out the provisions of this Act.

DEFINITIONS

SEC. 11. For purposes of this Act—

(1) the term "Council" means the Council on Industrial Competitiveness established under section 3;

(2) the term "member" means a member of the Council on Industrial Competitiveness; and

(3) the term "United States" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, American Samoa, and any other territory or possession of the United States.

I. PURPOSE AND SUMMARY

The purpose of H.R. 2373 is to establish a Council on Industrial Competitiveness as an independent advisory body within the government. The Council would be responsible for developing and promoting industrial strategies; assessing private sector requests for governmental assistance or relief, and developing recommendations designed to ensure that such relief will improve the international competitiveness of the industry concerned; gathering and analyzing data regarding the competitiveness of U.S. industries; creating a forum in which representatives of U.S. business, labor, academia and public interest communities can work together to identify economic problems inhibiting the competitiveness of U.S. industries; developing long-term strategies to address such problems and creating a consensus in support of such strategies; annually reporting on the status of the economy and major sectors; and making recommendations on issues central to the development of coordinated industrial strategies.

The Council would have sixteen members appointed by the President: four from business; four from labor; four from government; and four from the academic and public interest communities.

II. BACKGROUND AND NEED FOR THE LEGISLATION

The new international context

The decline in U.S. industrial competitiveness has now reached crisis proportions. The skyrocketing U.S. trade deficit—a staggering $150 billion last year—is perhaps the best evidence of this decline. America's inability to compete in world markets, as President Reagan's own Commission on Industrial Competitiveness reported just over a year ago, is one of the most serious challenges facing the United States. If we look beyond the short run, the inescapable conclusion is that competitiveness may well be the pivotal economic issue for our country for the rest of this century.

Our economic environment has fundamentally changed. The United States is now part of an increasingly integrated international economy. Today 70 percent of U.S. goods must compete with foreign products in domestic and foreign markets. The boundary between domestic and foreign commerce is blurring into non-existence.

Industrial revitalization depends on restoring U.S. competitiveness in both arenas. However, the United States has not adjusted to the new world economy as effectively as some of our competitors, most notably Japan and the other Pacific Rim nations. At a time when our foreign competitors are moving aggressively to solidify their positions in the world trading system, the declining international competitiveness of American industries remains unaddressed by any comprehensive or integrated strategy. Our most obvious targeted policy response has been a purely defensive one—insulation of beleaguered industries through protectionist measures.

We must face the fact that the economic dominance that produced the prosperity of the 1950's and 1960's for our country is gone, and it will not be returning. We have to build our future prosperity in a world where many talented nations compete effectively. The old habits and old policies will not suffice for our new situation. To be successful, domestic economic policies—including specific policies for revitalizing U.S. industry—must be developed and implemented with close attention to their competitive impact.

Business and labor cannot solve the problem alone. Too many variables are beyond their control. Wage cuts, labor cutbacks and management efficiencies cannot be solely relied upon to close a trade gap of the magnitude we face. Nor can traditional macroeconomic fiscal and monetary policy succeed on their own.

Instead, only through a coordinated program can we effectively address our competitiveness problems. The Committee believes that attitudes must change. Strategies for enhancing competitiveness must be developed in cooperation with business, government and labor. In this era of fierce foreign competition both at home and abroad, it is particularly important that realistic strategies be developed and that government fulfill its responsibility to create an environment which advances the competitive interests of U.S. industry.

Facing our competitive problems

Beginning in 1983, the House Banking Subcommittee on Economic Stabilization embarked on an extensive series of hearings on U.S. industrial competitiveness. The economic problems uncovered through these hearings are profoundly disturbing. One fundamental fact is clear: both mature and emerging U.S. industries are facing serious competitive difficulties when measured against their international competition. Measures of our underlying competitiveness are getting worse, not better, and the trend is not new.

While macroeconomic problems, notably an overvalued dollar, bear some of the blame for America's competitive problems, they simply do not explain everything. The United States did not have a trade deficit in this century until 1972. The trade deficit has climbed with few interruptions ever since, even when the dollar was widely viewed as undervalued in the late seventies. Despite a declining dollar, the United States now continues to post record trade deficits. But, most significantly, the value of the dollar cannot be blamed for clear competitive problems such as our slow productivity growth, stagnant wages, or inadequate productive investment.

Continuing efforts to reverse the erosion of our competitive position have been hampered by a number of factors beyond the dollar: a long-term decline in relative productivity growth; insufficient capital investment in the revitalization of basic industries and in the commercialization and diffusion of new technologies; a lack of adequate patient capital to invest in smaller, innovative firms; a series of systemic inefficiencies in the management and organization of business, including adversarial labor-management relations and short-term time horizons; and a serious erosion in the institutional support for production, including a lack of high quality domestic and international economic data and the analytical capability to make use of it.

Trade

The fundamental measure of our economic condition in a world economy is our trade picture. Our merchandise trade deficit was $42.7 billion in 1982, mounted to $69.4 billion in 1983, and nearly doubled to $123.3 billion in 1984. It continues to mount, hitting almost $150 billion last year. This country simply cannot sustain trade deficits of this magnitude. A nation that buys $3 billion more from abroad each week than it sells is draining its economic strength and mortgaging its future. In order to pay for the foreign-made products on which we increasingly rely, the United States has become a net debtor for the first time since we emerged as a major world power in 1914. Borrowing at a rate of over $120 billion a year, the United States has already become the world's largest debtor. We have saddled ourselves and our children with enormous future obligations.

Jobs and wages

Among the most straightforward measures of U.S. industrial competitiveness is inflation-adjusted wages. Real wages grew steadily from World War II until 1973. Since then they have fallen and the trend is still downward. In real terms average gross weekly earnings are at 1962 levels. Wage rates and living standards are stagnant and we have eight million people actively looking for work. There has been no reversal of the secular uptrend in unemployment rates from peak-to-peak and trough-to-trough of successive cycles. While the civilian unemployment rate came down from the December 1982 peak of 10.7 percent to 6.7 percent in January of this year, the latter low point is still significantly above the previous cyclical low point of 5.6 percent reached in May 1979.

Some 168,000 jobs were lost in manufacturing last year. Fully half the jobs in the U.S. steel industry have disappeared since 1979. The vast majority of the new jobs in the United States have been in construction and in services such as retailing, wholesaling, finance and government. These jobs, in areas not exposed to international competition, provide little comfort.

Productivity

Productivity growth has come to an ominous halt. Productivity has risen less in this recovery than in any other since World War II, and it declined last year. Productivity growth is vital because it ultimately determines wages, profits, and living standards. The United States no longer is the world's most productive nation in several industries, including autos and machine tools, and the productivity gap is widening rapidly. Our productivity growth has been outstripped by virtually all our competitors.

Investment

Falling interest rates have led to rising corporate indebtedness, but not to the sustained capital investment they were supposed to foster. Business investment in new, commercially productive plant and equipment is extremely low, as 20 percent of our industrial capacity remains idle. Over 90% of the growth in capital spending since 1979 has gone for automobiles and office machinery, not production equipment. Orders for plants and equipment have been falling since last September. Instead of investing at home, U.S. companies are stampeding offshore. Caterpillar, for example, now makes or buys well over 50 percent of its components and finished products abroad.

High technology and services

Our problems are not confined to one region, or to only our basic industries. The crisis in older "basic" industries has become common knowledge. But too few people realize that we have also lost market share in all the high technology or "sunrise" industries. Our electronics trade deficit with Japan is increasing in magnitude; we have fallen into deficit in telecommunications where we were once the world's pacesetter.

For years, the United States led the world in science and technology. But we have fallen short in translating our breakthroughs into new products and advances in manufacturing. The VCR and robotics were invented in the United States. Today not a single VCR is manufactured here, and we are far behind Japan in robotics. But even as we wrestle with that problem, a problem which is fundamental to our national competitiveness, a National Science Board report recently noted that our leadership in science and technology was in severe jeopardy, owing to inadequate laboratory instruction and equipment, shortages of qualified faculty and outdated curriculum.

We have neglected investments in areas fundamental to our economic future: the education and training crucial for a skilled and adaptable work force, and the requisite level of science and technology needed to keep us at the cutting edge of competition.

The deterioration in American manufacturing cannot be comfortably dismissed by the claim that we are becoming a service economy. Services and manufacturing are often inextricably linked. If the United States loses competitiveness in manufactured goods, it risks losing position in supporting services. If other companies, notably Japanese, dominate complex manufacturing, it is naive to believe that they will rely on our financial services, lawyers, or advertising agencies.

The changing nature of U.S. corporations

This country must make a concerted effort to put in place the policies—tax, trade, investment—that can keep the United States a country where it is possible to manufacture competitively. Currently, U.S. companies are becoming second-class manufacturers and many are giving up instead of doing something about it.

On March 3 of this year, Business Week magazine issued a lengthy report entitled "The Hollow Corporation" detailing the long-term damage that is being done to U.S. economic well-being in the face of increasingly sophisticated foreign competition. That article paints a stunning picture of just how much of our manufacturing base has been liquidated in the past few years. In many cases, American companies have gone abroad in search of cheap labor to compete; in some cases, they have been in search of skilled labor no longer available here. To a shocking degree, many of our corporations—including companies like RCA, Kodak, Caterpillar and Hewlett-Packard—have begun to operate, not by competing with Japan or Korea, but by distributing sophisticated products made in those countries.

Such an approach may be sound strategy for each of the corporations involved. But taken collectively, it spells disaster for our country's economic future. World economic leadership will reside in the countries that have the science and engineering, the technology, and the skilled and educated work force to make advances in manufacturing: new products and new processes. We are not going to be prosperous very long as the advertisers, retailers, consumers of sophisticated products made overseas.

Looking to the future

There will never be a day when a clear crisis arrives. It does not work that way. Great Britain did not awake one day to discover that its competitiveness and its standard of living were declining. Rather, it was a gradual deterioration over many years, eventually resulting in second-rate economic status for the nation. Some of that deterioration has taken place here already; it will continue to take place unless we dedicate ourselves to reversing it. But we have great assets as a nation, and with a concerted effort, we can insure a bright economic future for our country and our people.

President Reagan points with understandable pride to the long-running recovery coupled with low inflation. But these positive signs cannot dissipate the cloud that our deteriorating trade position casts over our economic future. If our country is fortunate enough to be in a period where some of the economic news is relatively good, we should be wise enough to make this a period of opportunity, not complacency. It is a period of time for recognizing the scope of the competitive challenge and for building consensus behind policies that will allow us to secure our competitive future. Lower interest rates, oil prices, and the price of the dollar do not make up for the way we have neglected crucial investments in industry modernization, education and training, research and development, science and technology.

III. FORGING AN INDUSTRIAL COMPETITIVENESS STRATEGY: THE POLICY PROBLEM

Existing industrial policies: Policy without strategy

Our failure to positively respond to the competitive challenges we face clearly does not reflect a reluctance to embrace policies designed to assist industry. This country currently has an extensive and expensive array of industrial policies, encompassing special tax incentives, antitrust policies, federal credit programs, and various forms of trade relief, to name just a few. These policies are neither coordinated, cohesive, nor consistent. They are designed and implemented randomly and in isolation from each other, with no evaluation of their individual or cumulative impacts on the competitive position of the industries they are ostensibly designed to assist. This country's current "industrial strategy" is a melange of stopgap measures undirected by any view regarding the kind of economy we hope to sustain.

The federal government ostensibly applies public policy in pursuit of a public purpose, but in fact often has no clearly articulated purpose against which to measure the policy or its impact. In a wide variety of industrial sectors, the federal government approves trade relief intended to facilitate adjustment without a true understanding of the competitive position of the industry, the nature and adequacy of adjustment efforts to be undertaken, or the likely effect of the relief on import and export activity; it revises tax policy to facilitate modernization and investment without a means of probing or evaluating modernization and investment goals or monitoring their pursuit; and it imposes antitrust constraints without an independent means of assessing industry needs for restructuring and rationalization.

The Nation's industrial problems are thus to a significant degree institutional and procedural. While existing policies profoundly affect individual industries, their overall impact on key industrial sectors is too often neither intended, understood, nor anticipated. Government "policy" toward the steel industry, for example, is only what emerges from the interplay of tax, antitrust, trade, research and development and other policies established and applied in isolation without regard to their capacity to counteract and undercut each other.

This country must face up to the reality that we have an expensive, inarticulate and badly-coordinated set of industrial policies which is inefficient in promoting the international competitiveness of our basic industries. At the same time the Federal government is pursuing its vast and incoherent array of "industrial policies," the industries which it is supposedly helping are continuing to decline. Although we spend a great deal of money, the policies are not coordinated into an effective strategy. Recognizing this reality, and taking steps to increase the efficiency and conditionality of our industrial assistance process, is a fundamental task for public policy.

At the heart of the deficiencies in current government policies affecting the competitiveness of U.S. industries is an appalling lack of both basic economic data regarding competitive opportunities and problems and the focussed analytical capability that could make use of it. Without a basic understanding of the shifts occurring in the U.S. economy, the changes and problems confronting individual industries, and our Nation's competitive position vis-a-vis other countries, it is impossible for either the public or private sector to make informed and effective economic decisions. We must know where we are before we can intelligently debate where we should be going.

The data problem

To be effective, industrial policies need to be based on accurate, timely information. But deficiencies in current government policies affecting industries have been caused in part by an appalling lack of both basic economic data and the focused analytical capability that could integrate and make use of them. Testimony presented to the House Banking Subcommittee on Economic Stabilization supports the conclusion that the United States has one of the weakest systems of economic record-keeping of any advanced industrial country. The President's own Commission on Industrial Competitiveness indicated that our data collection and analysis capability and current agency efforts were inadequate.

Our data collection and analysis capability in regard to sectoral information is particularly weak. Eleven different commissions, including the Business-Higher Education Forum, the Labor-Industry Coalition for International Trade, the Committee for Economic Development, the White House Conference on Productivity, the American Federation of Labor and the President's own Commission indicated we needed to improve our sectoral research and information-gathering capability. This Administration has instead reduced funding for data collection programs during its tenure.

Our industrial data collection, integration, and analysis is inadequate and untimely. Wassily Leontief, Nobel Laureate in economics, has repeatedly criticized the quality and especially the timeliness of economic data in the United States. It takes the United States more than seven years to produce input-output tables for its economy—key research tools for determining the interrelationships between industries. The last input-output analysis was completed by the Commerce Department years ago and such analyses are routinely not regularly updated. Countries such as Japan and West Germany produce them regularly.

The primary source of information on manufacturing trends is the Census Bureau's Census of Manufacturers, which is only published at five year intervals. This census data, supplemented (insufficiently) by Census Bureau annual surveys of manufacturers, is used by the Bureau of Economic Analysis and other agencies and offices that perform economic analysis. The United States has no system for more efficient collection of data, or for centralizing, integrating, and disbursing the data that are collected. Labor market information remains at the Labor Department; other industrial economic data remains in various offices of the Commerce Department; information relating to international trade is kept by the United States Trade Representative, the International Trade Commission, and the State Department. Data on the service sector is virtually non-existent and our industrial classification system is seriously outdated. The result of all this is that business must pay private consulting firms to compile and analyze data needed to make sound business decisions.

The current policy process

Our diverse array of microeconomic interventions in the economy has been variously characterized as "de facto," "haphazard," "reactive rather than proactive," and "*ad hoc,* uncoordinated, reluctant, and poorly administered." The overwhelming consensus of observers is that while the United States has a broad and diverse array of discrete industrial policies, it has no coordinated, coherent strategy that serves the crucial goal of international competitiveness. Given the administrative structure through which we make policy affecting industry, this conclusion is hardly surprising.

By design, our system of government splinters power. Authority in Congress is divided among 8 select and special committees, 38 full committees and 242 subcommittees. The splintering of power in Congress parallels a similar fragmentation in the Executive

Branch. That power is now atomized among 8 major offices within the Executive Office of the President, including the Office of Management and Budget; 13 departments, 55 indipendent agencies and government corporations and hundreds of individual programs.

The likelihood of securing agreement in this environment of fractured accountability is slim. Shifts in economic policymaking implicate 33 separate agencies and departments outside the White House. Decisons about U.S. trade policies are divided among the United States Trade Representative, the Office of Management and Budget, the Council of Economic Advisers, the Secretary of Commerce, at least 25 other departments and agencies in the executive branch and 19 committees and subcommittees of the Congress.

The administration and management of federal incentives to firms and industries is fragmented among federal departments—Treasury, Labor, Commerce, Housing and Urban Development, Interior, Environmental Protection, Agriculture, NASA, Defense, the Small Business Administration—and numerous independent and quasi-independent institutions such as the International Trade Commission, the Export-Import Bank, the Overseas Private Investment Corporation, and the Federal National Mortgage Association. No single federal entity, administrative or Congressional, has the mandate to oversee, monitor, or manage the system of federal incentives. In light of this extensive fragmentation of administrative and oversight responsibilities, and the particularized interests that federal agencies represent, it is little wonder than an uncoordinated, and in some degree, incoherent array of policies toward industry has evolved.

The decline in U.S. industrial competitiveness, if unaddressed, poses a serious danger to the economic stability of this country and will effectively destroy its prospects for long-term economic growth. The Committee believes that the complex, fragmented structure of the federal system slows decisionmaking and diminishes government's ability to address our competitive problems. The spectre of a vast and poorly coordinated array of policies affecting industry which are proving increasingly ineffective in solving the problems of America's industries creates an urgent policy problem which must be addressed by the Congress. As a study by the Urban Institute concluded:

> The fragmentation of the federal incentive system, the diverse, uncoordinated, and, often, conflicting objectives which it serves, as well as its massive costs, suggests starkly the need for reconsideration of the system of industry assistance, its objectives, administration, and the incentive tools utilized in its implementation.

The gridlock, duplication, delays, omissions and unintended consequences that now impede government and harm our Nation's competitiveness cannot be altered by simplistic nostrums such as eliminating government, centralizing power, or abdicating public responsibilities. What are required are techniques of politics and governance that will permit flexible, speedy decisionmaking and simultaneously preserve open and democratic government.

Consensus on the need for a new approach

The Committee believes that the basic issue confronting the U.S. economy is the inability of all those participants with important stakes in its success to act together, to build a consensus about common economic problems and to mobilize resources in pursuit of our common goals. At a time when it is imperative that government, business, labor, academia, and public interest groups act together to develop and coordinate long-term strategies for helping to assure the international competitiveness of U.S. industries, counterproductive adversarial relationships remain the order of the day. No high level forum exits for developing a consensus on economic policies. Consensus-building must, therefore, be the cornerstone of anything called "industrial strategy." This is the essential starting point for the development of public and private sector policies supportive of economic growth.

There are those who argue the development of an industrial strategy is too interventionsist, that government should stay out of business concerns. Such a posture totally ignores current reality. Government makes policy having a direct impact on industrial performance and prospects all the time. In fact, experts estimate that half of all actions taken by business are in direct response to the decisions of government. The problem is that the techniques of public adminstration have not kept pace with this reality. The Committee is not recommending the imposition of industrial plans by administrative fiat, but the initiation of a cooperative process through which all parties with an economic interest can coordinate efforts so as to enhance the competitive position of U.S. industry.

Since the Subcommittee on Economic Stabilization began its deliberations in 1983, there have been dozens of studies on long-term competitiveness and the need to improve the quality and focus of government decisionmaking. The blue-ribbon panels performing these studies involved leaders from virtually all of the leading companies (large and small), unions, academe, public policy institutes and foundations, and hundreds of private citizens. One item on which there was clear consensus was that the stunning confusion that characterizes the U.S. policymaking process is a major obstacle to improving U.S. competitiveness. Groups as diverse as the Business-Higher Education Forum, the AFL–CIO, the White House Conference on Productivity and the President's own Commission on Industrial Competitiveness concurred that we need an institutional mechanism to focus attention on competitiveness issues in the policymaking process and develop consensus regarding government policies affecting industry.

These varied studies emphasized the need to improve the coherence of government decision-making, regardless of whether the size and influence of government is larger or smaller. There was clear consensus that it was critical to create a decision-making process at the highest level of government that would ensure that issues affecting the long-term competitiveness of American business and workers were given the attention and priority they require.

The Center for National Policy reported that a missing ingredient in America's competitive efforts is "an effective process for making policy decisions." The study called for "an Industrial Development Board, composed of government, labor and business leaders, to advise the President and develop cooperative strategies to promote industrial growth . . . and help insure that government efforts do not work at cross-purposes with private efforts."

The Committee on the Next Agenda—a Committee convened by the Administration and composed of leaders from the Brookings Institution, the Heritage Foundation, the Hoover Institution, the Hudson Institute, the American Enterprise Institute, and the Institute on Research of Economics of Taxation—informed the President that "there is an overriding need for a clearly developed and articulated comprehensive foreign economic and trade policy. . . . The current fragmented system needs to be rationalized or replaced by mechanisms that promote the formulation of coherent, long-term and thoughtful approaches to foreign economic and trade issues."

The message that is being sent to the Congress and the President by distinguished leaders from business, government, unions and academe is that government must give much more attention to the management of its affairs and how those affairs affect the competitiveness of our nation's economy. The Committee believes tht H.R. 2373 is an important step in that process. It provides high level oversight and the mechanisms that are required to collect and analyze information, secure a broad, open consideration of views and translate analysis into specific policy recommendations for the President and Congress.

Those who criticize the search for coherence as the introduction of some form of centralized planning completely miss the point. What the Council would provide is not central planning but a brokering mechanism which would play an important coordination and consensus-building role. This mechanism would institutionalize an economic policy apparatus that would integrate domestic and international considerations, eliminate redundancies, and have sufficient visibility to make its concerns a national priority.

The Council would help the President and other policy-makers focus on the diverse concerns—such as trade and investment regulatory reform, technological innovation, and the development of human resources—basic to an effective competition effort. This legislation would begin the long overdue process of improving the coherence of federal decisionmaking, particularly as it influences the competitiveness of U.S. industries. It would elevate the issue of trade and competitiveness to a parity with foreign policy and national defense—an acknowledgement of the critical nature of competitiveness concerns that has been too long in coming.

The President's Commission on Industrial Competitiveness

The Committee believes it important to note that this Administration also has serious concerns about our competitive position. In June of 1983, President Reagan appointed his own Commission on Industrial Competitiveness, the Young Commission, thus calling attention to the new reality of global competition faced by American industry at home and abroad. He called for recommendations on ways to improve the nation's ability to compete, and he selected a commission of 30 distinguished Americans from business, labor, government, academia and the public.

The Young Commission studied the global economy for 15 months and reported unanimously in January 1985, just over a year ago. The Commission gave us an unflinching picture of where we are and where we must go. Their report could have been a focal point for a national debate and the foundation on which to build a new consensus for needed policies. Their work was persuasive because it was the work of a blue-ribbon commission, representing a diversity of interests.

In short, the Young Commission concluded:

> Our ability to compete internationally faces unprecedented challenge from abroad. Our world leadership is at stake, and so is our ability to provide for our people the standard of living and opportunities to which they aspire.

The Young Commission then offered a series of thoughtful proposals for government and private action: to develop mechanisms for building a consensus among key sectors of society to better respond to our competitive challenges; to better create, apply, and protect new technology; to increase the supply of productive capital; to develop a more skilled, flexible, and motivated workforce; and to make competitiveness a national priority.

The President's Commission noted that "Government decision-making can be strengthened significantly by providing a forum in which consensus can be reached on the facts of an issue and in which the implicit tradeoffs among policy options can be made explicit."

The Young Commission did some vital work for this nation. The Committee notes with disappointment that the importance of that work has been basically unrecognized by this Administration. The President has done virtually nothing in the 15 months since the Commission unanimously called on America to grasp the challenge of this competition and to make it the primary economic agenda for the next decade. The Committee believes that the Council will provide the catalyst for a serious and sustained national effort to enhance this Nation's competitive position, an effort which is fundamental to our future economic prosperity.

IV. NATURE AND PURPOSE OF H.R. 2373

The Underlying Principles

In developing this legislation, the Committee has been guided by the following principles:

First, we must accept the fact that we have industrial policies, and we should be open and public about what these policies policies are and whom they benefit. Back-door and behind-the-scenes policy-making is both inefficient and destructive of the social consensus which must underlie any economic strategy.

Second, industrial policies must be the result of negotiation between affected parties. We are too diverse a society, with too deeply ingrained principles of democratic decision-making to tolerate economic policies being imposed bureaucratically from "above." The Committee believes that affected entities must be involved in formulating and implementing policies, if only because their cooperation is essential to success.

Third, industrial strategies should promote a diverse and vital economy. Such strategies should not focus on only a few industries or sectors, be they smokestack or high-technology. Diversity is a key to the economic vitality of an economy such as ours. An industrial strategy should aim to promote such diversity. Our policies must enhance the competitiveness of declining industries and create an optimal environment for emerging new industries and frontier technologies, so that all can adapt to the new realities of international competition.

Fourth, industrial strategies should be employment-oriented. The Committee realizes that improving the competitive position of certain industries might require reduced capacity and result in fewer jobs. Therefore, we must be cognizant of the need to promote the growth industries which will assure enough good jobs for American workers into the next century. We must not have policies that attempt to put road blocks in the path of change. But, at the same time, our policies must work to create jobs for Americans and stability for communities. Our focus should be on government policies that promote the development of a skilled and versatile workforce and facilitate adjustment to the changing structure of our economy.

Conditionality

Most importantly, the Committee firmly believes that efficient industrial strategies must be built on conditionality. A central problem with existing government policy toward industry is the absence of any link between the assistance or relief granted and strategies for improving the relevant industry's competitive position. Various forms of government assistance—e.g., tax incentives to promote reinvestment, or trade protection to allow for restructuring—are granted to effect a particular public purpose. Yet, the granting of assistance alone is not sufficient to ensure that the purpose is achieved. The Council that this Committee would establish would remedy the current situation. It would assess private sector requests for governmental assistance or relief, and develop recommendations regarding conditions that will ensure that such relief will improve the international competitiveness of the industry concerned.

If public resources are to be spent on a firm or industry, there must be a clear understanding of what the public is going to get for its money. Often, achievement of the desired goal requires the negotiation of commitments from various economic actors whose cooperation is essential. By bringing the perspectives of all relevant parties to bear in developing industrial strategies, the Council would provide a forum that would demonstrate the need for and facilitate the neogtiation of such commitments.

In many cases, there will have to be quid pro quo bargaining. Industries or firms must enter into an agreement for modernization, restructuring, and improved competitiveness. This process will involve shared commitments of all those with a stake in the industry—management, labor, suppliers, dealers, financial institutions, etc. The firm or industry would have to be monitored to make certain that it carried through on its commitments. No more protectionism, loans, or tax breaks should be granted in the hope of reform. Instead, we must have a real ability to guarantee reform in return for support.

Industrial strategies must be market sensitive and promote international competitiveness. Government should help firms compete; it should not get into the business of shoring up inefficent and noncompetitive firms. Thus, Government assistance or relief should be extended only when that effort can produce a world-class competitive industry, able to stand on its own without government assistance in the foreseeable future. The Committee emphasizes that the goal of policy should be to facilitate the process of adjustment to new market realities, not to ignore the market.

An alternative to protectionism

The inevitable consequence of our lack of an industrial strategy has been rising demands for protectionism. This approach is fundamentally misdirected and dangerously debilitating. In essence, it evades the competitive challenge we face. The Council would provide an effective alternative to the ultimately self-defeating reliance on insulating our indusries from competitive forces.

Trade relief is precisely what free market purists claim we do not need and do not have: a targeted, sectoral form of industrial assistance designed to provide special benefit to a firm or industry unable to compete within the confines of general macroeconomic policy. Government clearly does intervene on behalf of specific industries. However, we intervene increasingly, not to help our industries compete, but in a lastditch and ultimately ineffective effort to artificially stay their decline.

Increased international competition has put a premium on the ability of our industries to adjust and change. But, rather than act strategically to promote adjustment and improve competitiveness, too many of our industries have sought shelter from competition. The effect is to inhibit the very adjustment essential to long-term economic growth.

The Committee would emphasize the protectionism has the unfortune tendency to feed upon itself. Often, an implicit or explicit justification for relief is that it would give American companies time to adjust to changing market conditions and increased foreign competition. Yet, in our current policy environment, there is no way to enforce this bargin—no way to make relief conditional upon improved performance. As a result, these policies merely insulate American producers from incentives to adjust, making continued protection all the more essential.

An additional disadvantage of protectionist policies is that they inevitably invite retaliation and threaten the open world trade system it has taken decades to build. Our own growth and the growth of the world economy depends on our ability to sustain this system. Extensive American trade proection or aggressive, unmeasured responses to government policies abroad will undermine America's capacity to provide essential leadership in the world. Our objective must not be to punish or retard the competitive gains made by other nations, but to do a better job of competing ourselves.

In some cases, time-limited and conditioned proection could be an effective part of an industrial strategy. But policies of protection should generally be strategically applied and self-liquidating. If there is any justification for protection, it should be that some sudden change by international competitors has left potentially competitive U.S. firms without the time or the resources to respond. Protection provides the time, but too often reduces the incentive. The Committee believes that government should link protection for an industry to a plan for remaking the industry into a world-class competitor.

The increasing preoccupation of our industries with eliciting protection from the government partly reflects the enormous gap we now have to the policy level. The fact is that the Federal Government cannot act strategically to promote industry adjustment and improve competitiveness. We have no appropriate mechanism to use. When trade relief becomes the only policy tool available, every problem of encessity becomes a trade problem. Protectionist policies are relied on in large part precisely because we have no apparatus for developing, and no coalition for supporting, policies that actively promote American international competitiveness.

The Committee believes that the Council will provide that essential alternative. One of the Council's principal duties is to assess private sector requests for government assistance or relief—including trade relief—and recommend conditions that will ensure that the industry uses the respite provided by that relief to turn itself into a world-class competitor.

Intent of the legislation

It is this Committee's intent to create a structure for policy formulation that will engender thoughtful deliberations regarding strategic solutions to our competitive problems. The essence of industrial policy is not government provision of financial assistance. It is the creation of institutional mechanisms that will promote the integration of government policies toward industry into a cohesive network. Such a coordinated web of policies directed at improving the competitive position of our industries could have a far more beneficial impact than the unfocussed and often inefficient assistance the government now provides.

Accordingly, H.R. 2373 seeks to establish a forum where individuals broadly reflective of the basic interests in society can convene to analyze our economic problems, work out common objectives, and then frame strategies to help the nation achieve those goals. The Council would bring representatives of business, labor, government, academia and public interest groups together towork out a consensus strategy for enhancing the industrial competitiveness of this country. It would formally institutionalize opportunities for greater cooperation and communication between all parties with an economic interest and serve as a catalyst for geneating solutions to competitive problems confronting our economy as a whole and specific industries and sectors. The Committee believes that a formal mechanism for joint deliberations will promote early identification of industry problems and facilitate management solutions or government policy based on collective and informal consensus among those with a stake in the competitive position of our economy.

The Committee intends that this Council become the focus for addressing critical economic issues and for developing consensus on coordinated government policies to promote industrial competitiveness. The structure of the Council will facilitate the process of coordianting our disparate policies affecting industry into a coherent industrial strategy.

A coordinating council of this sort is absolutely essential if we are to turn our present collection of ad hoc badly-targeted, insufficiently conditional, and overly-expensive industrial policies into a strategy which could be effective in helping American industry compete in world markets. By providing for improved coordination of policy development at the federal level, the Council will help ensure that competitiveness considerations are given far greater priority when policy decisions are made.

Under H.R. 2373, no industry action can be brought about by administrative fiat. The Committee believes that the Council should be a deliberative body with no direct line authority or program responsibility. The Council and its industry subcouncils are essentially fora for bringing together the affected parties in our economy. Their main task is the mobilization of consensus for an economic strategy based on generally-accepted data and analysis and supported wherever needed by reciprocal commitments from affected parties. Program responsibility would distract the attention of the Council from its central task, possibly turning it into yet another agency defending its turf or building up a self-protective constitutency.

The Committee strongly believes that the multi-level deliberative body it proposes is the best way for the United States to approach issues of industrial strategy. Such an approach matches our cultural institutions and political traditions better than an attempt at centralized, bureaucratic policy coordination. It allows for diversity of thought and expression, and does not depend for its authority on the exercise of administrative power.

Without such an institution, the Committee is concerned that the U.S. economy will fail to maintain the competitiveness and prosperity we as a nation need. Politically powerful firms or industries will continue to demand—and receive—aid from the Executive Branch and the Congress, and their petitions will always be presented in a crisis context. If our government fails to develop institutions to apply, examine, and coordinate these decisions on an above-board basis, the alternative is what we already have: not the absence of industrial strategies, but rather unwise ones, both costly and ineffective.

Critics of efforts to create an industrial strategy for this country have often mischaracterized it as "central planning" or a new government assistance program designed to prop up declining industries. Such characterizations reflect a complete misunderstanding of the principles underlying the Committee's proposal. The Council has no authority to channel money to industry. That is not its intent. The intent is to create a structure that would help to ensure that whatever government assistance is channeled to industry reflects conscious policy choices and effectively serves public purpose.

If industry efforts at cooperation that would improve our performance in the international market are resisted because of government decisions effectively providing insulation from that market, the intent of each individual policy that could improve industry performance is nullified. The overall effect is an inexplicable heap of policies with no direction to give it coherence or credence.

The structure and composition of the council

H.R. 2373 would establish a national Council on Industrial Competitiveness as an independent advisory body within the Government. The Council is charged with thinking broadly about the structure of our economy, and the problems of international competitiveness. The national Council would in turn sponsor a series of industry subcouncils to explore in greater depth the problems and prospects of specific industries or sectors. The agenda for both the national and sectoral councils would be the same: to determine ways in which private actions and public policy can further our common goals of economic growth and international competitiveness.

If they are to be successful in their missions, the councils must be able to mobilize wide public endorsement for their strategies to create an economic environment conducive to growth. This kind of support can be ensured only if the councils themselves are viewed as unbiased and diverse bodies whose decisionmaking processes are open and participatory. For such fora to be effective, the Committee believes it is absolutely essential that the membership of both the national Council and the industry subcouncils be reflective of the major participants in our economy. Individuals drawn from the highest levels of leadership in U.S. business, labor, academia, and public interest groups, such as the environmentalist and consumer protection communities, need to deliberate openly with top-ranking government officials.

Members of the national Council in particular must be individuals capable of thinking broadly and deeply about the problems of our economy. The Committee intends that these members shall have a broad understanding of both the United States economy and the United States position in the world economy and shall be effective representatives of the interests of the U.S. business, labor, academic and public interest communities. These individuals must be able to weigh tradeoffs and balance interests, formulating a persuasive view of the national interest, which can be effectively communicated to the country as a whole.

Accordingly, to ensure the development of effective competitive strategies capable of garnering the widest possible support, the Committee has designed the Council to maximize participation and balance competing interests. The national Council would be comprised of sixteen members appointed by the President, with membership drawn equally from key sectors of our society. Four members shall be heads of Federal departments or agencies, members of Congress or representatives of State or local governments; four members shall be from the U.S. business community, including at least one individual from the small business community; four members shall be from the labor community; and four members shall be from the academic community or shall be individuals who have been active in public interest activities.

This Council would represent a fundmental shift in the way policy toward industry is formulated. The cumulative effect of the wide array of government policies that affect an individual industry is now largely happenstance. All too often, business and labor have no ready means of apprising government of competitive problems that could be averted or ameliorated before substantial damage is done to an industry's competitive position.

At no point in the current process can policymakers take an industry-wide perspective to analyze the overall effect of existing or proposed policies. No conscious choice is made between the conflicting goals and results of the array of policies affecting any individual industry. No mechanism exists for integrating individual policies into a cohesive package designed to promote industry competitiveness. The central problem is that there is no forum for facilitating the necessary cooperation, and identifying and resolving conflicting claims.

In an increasingly competitive world economy, such an approach is dangerous. What is more, it is extraordinarily inefficient and, as a result, unnecessarily expensive. Different government policies toward a particular industry may well pull the industry in contradictory directions. Government policies intended to promote reinvestment for example, may be undercut by other policies that provide incentives for plant closings and easy diversification. Those same reinvestment policies may also be undermined by other policies which encourage the relocation of American plants overseas.

The Council on Industrial Competitiveness would develop recommendations based on the informed deliberations of all relevant economic actors that would facilitate the making of necessary choices. It would encourage cooperation, coordination and negotiation in the development of policies affecting industry. In short, this forum would create an opportunity for decisionmakers to work cooperatively to develop a cohesive strategy deliberately focused on improvement of the competitive position of individual industries and our economy as a whole.

An example of how this approach would work in a particular sector points out the sharp contrast to current policy formulation. Government agencies responding to steel industry demands in the past, for example, have necessarily been on the defensive. The industry has advocated for a number of policies that it agrued would improve its competitive position, including trade relief, antitrust waivers and special tax incentives. Individual government agencies evaluating these isolated requests has no integrated perception of the industry's competitive position or prospects to provide a context for evaluating the effectiveness of these approaches. Nor could they counter industry representations as to capital requirements, modernization goals, or possible competitive efficiencies to be gained from these policies with independent analysis. While a strategic application of these and other policies in combination might enhance the industry's position, no individual agency has been is in a position to devise, advocate or monitor an integrated approach.

Under the construct recommended by this Committee, the scenario would be fundamentally different. Relying on the independent analytical capabilitty of the Council, individual agencies would be in a better position to assess industry demands based on common perceptions of the industry's status and prospects. Deliberations of an industry subcouncil would provide a forum for placing individual policies in the context of an overall strategy supported by all elements of the industry. Council recommendations could then clarify the interrelationships among various policies and link them as part of an overall effort. They would also provide the basis for identifying and securing necessary commitments from industry.

Taking a hard look at industry

An essential aspect of the Council's structure is the inclusion of outside experts in the deliberative process. The Committee made a deliberative effort to avoid a structure through which business and labor could get together, work out "sweetheart deals" that advance only their own narrow interests, and overwhelm the legitimate public perspective that must be brought to bear.

The legislation provides that academia and the public interest community will have substantial representation on the Council, enabling representatives of these sectors to play a key role in the Council deliberations. In addition, the Committee would expect and encourage the Council to hire consultants and independent outside experts on each major industry to provide objective assessments of what is required to improve industry competitiveness in particular sectors. Council hearings will provide yet another opportunity for outside experts to give the Council the benefit of their views. Industry will itself be amply represented on the Council. It is, therefore, particularly important that industry critics be able to voice their positions and concerns, so that a balanced perspective on industry problems can be achieved.

Too often Congress and the Executive Branch are effectively put on the spot by industry advocates who approach government only when crisis is imminent and insist that only the particular assistance or relief they then seek will save the industry from pending disaster. Under such circumstances, government representatives are rarely in a position to effectively bring independent analysis and the assessment of outside experts to bear. The Council will include outside critics knowledgeable about industry structure, policies and politics who will take a hard look at the position of industry representatives and examine their perspective with a discerning eye.

Industry subcouncils

By their nature, the industry subcouncils would be more narrowly focussed than the national Council, bringing a "bottom-up" perspective to industrial strategy issues. Members of specific industry subcouncils, by necessity, would have to have deep knowledge and experience in that particular industry. The national Council would receive proposals from its industry subcouncils, and it would be charged with reviewing them carefully from its national perspective, modifying the proposals where necessary or sending them back to the industry subcouncils for further deliberations.

The industry subcouncils would provide a negotiating structure within which those with an economic interest in a specific industry's fate could work cooperatively to enhance its competitive position. Such a structure is particularly critical as U.S. industries increasingly face competitive problems. Our past economic circumstances have permitted our industries to subsume the competing demands of management, labor, consumers and other economic actors in a stream of effortless growth. That luxury is no longer available. The development of growth strategies when all competing demands cannot readily be accommodated requires negotiation, adjustment, and shared commitment. Absent a structure that can facilitate such a cooperative effort, the differing short-term economic interests of various industry actors create adversarial relationships that become obstacles to economic growth in their own right.

Executive director and staff

The primary purpose of the Council's consensus-focused activities would be to develop strategies that would enhance the ability of U.S. industries to compete internationally. To achieve the desired purpose, the Committee has provided the Council on Industrial Competitiveness with a professional staff who is intended to be able to interpret and analyze data on the nature of our economy, the scope of our economic problems, and the activities of our international competitors. The legislation provides that the Council will appoint a full-time executive director as the principal administrative officer of the Council, after consulting with the President and leaders of the Congress. The executive director will appoint the personnel of the Council in accordance with the civil service and classification laws, within the limitations of the Council's appropriations.

Duties and powers of the Council

The Council is to articulate a national perspective focussing on our long-term prospects for economic growth and make recommendations as to how government policies toward industry could better serve that end. As the chief advocate of coordinated industrial strategies, the Council will have the authority to advise other agencies of government charged with developing and implementing policies that affect our industrial competitiveness.

The principal mandate of the Council is to analyze existing and proposed policies and make recommendations to the President, the Congress, and Federal departments and agencies on the kinds of actions which should be taken to achieve industrial competitiveness. The Council would thus help coordinate the present array of public policies and would help redirect them, when necessary, so as to improve industrial competitiveness. In addition, the Council would ensure that new policies effectively serve the same end. Where an industry initiates a request for government assistance or relief, the Council would assess the request, and develop recommendations as to conditions that will ensure that such relief will improve the international competitiveness of the industry concerned.

The Council is directed to establish industry subcouncils of public and private leaders when and for such periods of time as the Council deems appropriate. These subcouncils are directed to examine the competitive problems facing specific industries, develop recommendations for solutions, and report their findings and recommendations to the Council. The Council is directed to review subcouncil reports and rely on its review of the findings and recommendations of the industry subcouncils in preparing its own recommendations.

For some of our mature industries, the industry subcouncils would have to focus heavily on questions of restructuring. For others, the issues may be the development of new markets, technological innovation or support for cooperative research activities. Subcouncil deliberations would assess the effectiveness of a variety of tools and long-term strategies for improving an industry's competitive position. Such deliberations would encompass consideration of employee ownership and other policy approaches designed to facilitate the use of existing facilities and reemployment of the existing workforce. The precise agenda for each subcouncil would have to be determined by its members in consultation with members of the national Council.

The Council's imprimatur on any industry level consensus, reflecting its own sophisticated analytical capability and national perspective, would add substantial weight to the recommendations advanced. The force of these recommendations would in turn serve as a strong inducement for widespread industry participation in subcouncil deliberations.

The Committee has designed the Council's decision-making process so as to require that all parties with an economic interest work cooperatively to generate consensus. In an effort to maximize consensus, the Committee has directed that all substantive action by the Council would require a two-thirds vote. Thus, no group or groups would be in a position to dominate or skew the deliberative process. Recommendations for competitive strategies arrived at would necessarily reflect the interests and concerns of all major economic actors. In the event a two-thirds consensus cannot be reached, the Council shall transmit a report to the President and both Houses of the Congress explaining the reasons. Such report shall include all information gathered by the Council on the matter at issue and a list of potential policy options.

Moreover, H.R. 2373 authorizes and the Committee would encourage both the national and sectoral councils to hold public hearings. Such hearings, would provide the Council and subcouncils with the broadest possible public participation and give them important insights regarding the practical impact of government policies on workers and communities. In particular, the subcouncils' authority to hold hearings would ensure that their deliberation reflect the concerns and insights of those most directly affected by economic adjustment. The geographical concentration of many of our major industries makes it particularly important that the councils establish links to the community so that adjustment problems can be identified and addressed in the process of developing industry strategies. The hearings would also serve as a means of engendering broad public support for strategies ultimately recommended.

In summary, the Council, with the support of its professional staff, would be responsible for; (1) developing and promoting industrial strategies; (2) assessing private sector requests for governmental assistance or relief, and developing recommendations designed to ensure that such relief will improve the international competitiveness of the industry concerned; (3) developing a sophisticated analytical capability regarding the competive position of our economy and others and the direction of their evolution; (4) analyzing the impact of existing government policies and business practices on industry and recommending policy changes that would coordinate and redirect these programs into an overall strategy promoting growth and competitiveness; (5) creating a forum in which representatives of U.S. business, labor, academia and public interest communities can work together to identify economic problems inhibiting the competitiveness of U.S. industries and develop a consensus regarding how our economy should evolve over the long term, both domestically and internationally; (6) providing policy guidance to the Congress, the President, and Federal departments and agencies concerning appropriate policy actions to take in support of that consensus; (7) reviewing, evaluating, and transmitting specific policy recommendations developed by the industry subcouncils; and (8) annually reporting on the status of the economy and major sectors.

Integration with other agency functions

The Council is designed to play a unique role in our policymaking process that is now not being performed, and to help coordinate other agency policies that require some strategic direction. The Committee does not intend that the Council duplicate existing agency functions. It is the Committee's intent that the Council, in carrying out its duties, seek to avoid, to the greatest extent practicable, the duplication of any service performed by, or activity conducted by, any Federal agency or department. To help avoid such duplication, the Council is authorized, upon request, to secure information necessary for the carrying out of its duties from other United States departments and agencies.

The Council's concerns will, however, necessarily overlap those of other agencies and inevitably the potential for duplication of effort will arise. In such cases, the operative standard should be what agency or mechanism can most effectively and efficiently perform the function at issue. If a particular function would most appropriately be performed by one of the existing agencies or departments, the Council would defer. Where having the Council perform the function would be most consistent with the new emphasis to be given competitiveness concerns that this Committee is advocating, the Council should subsume the function. If it is determined that the Council could most effectively perform functions now encompassed within the budgets of other agencies, it is the Committee's intention that those functions and the attandant funding be removed from the purview of the other agencies involved.

Data gathering and analysis

Testimony presented to the Committee supports the conclusion that the United States has one of the weakest systems of economic record-keeping of any advanced industrial country. For example, officials in the Japanese Ministry of International Trade and Industry are said to know more about certain aspects of the American economy than our own government officials, and in every case they know much more about the working of their own economy than any of our counterpart public agencies know about ours. This incredible lack of information contributes to this country's inability to devise effective economic strategies, and perpetuates our unfortunate tendency to be "blindsided" by foreign competitive advances which could easily have been foreseen. Some government entity should certainly know as much about the state of our economy as do securities analysts on Wall Street. It is not at all clear that any does.

This nation's already inadequate data base has been eroded by cuts this Administration has made in critical data collection programs. Yet, even before these reductions, the Federal Government's capacity to analyze international economic data from a competitiveness perspective was minimal. The Council on Industrial Competitiveness would be charged with undertaking precisely such analysis. It would interpret and analyze relevant domestic and international data concerning current and future economic trends and market opportunities. Consequently, it would be in a position to monitor the changing nature of the U.S. industrial economy and its capacity to provide marketable goods and services in domestic and international markets, providing an early warning system regarding problems in responding to international competition.

The Council's analytical capability is intended to enable it intelligently to evaluate existing and proposed government policies toward industry from the vantage point of our international competitiveness. It would articulate a national perspective focusing on our long-term prospects for economic growth and make recommendations as to how government policies toward industry could better serve that end.

Currently, no federal entity has anything approaching such a capability. The Committee expects that this capability, coupled with the participatory nature of its deliberations, would ensure that the Council's recommendations would be taken seriosly by the business community and would make the Council a powerful voice in the formation of economic policy.

Reporting requirement

The Council is required to report within one year after enactment of this legislation and annually thereafter to Congress and the President on the state of the national economy, the status of major sectors, and the effect of existing government policies on industry. Those reports are to contain its recommendations regarding any changes in Federal policy necessary to implement effective industrial strategies. Policymakers at all levels would thus be relying in their deliberations on a common view of the competitive problems facing our industries. Under such circumstances, it is the Committee's hope that perpetual argument about the nature of the problem should readily give way to a focus on the viability and relative success of alternative solutions.

Authorization

The Committee proposes an initial authorization level for the Council of $25 million for fiscal year 1987. Such an authorization level is clearly reasonable when viewed against the billions of dollars already spent on government policies toward industry. These policies are far more expensive and less effective than they might be precisely because of the absence of the coordination and integration the Council would help provide.

HISTORY OF THE LEGISLATION

The Council on Industrial Competitiveness Act, H.R. 2373, is substantively similar in concept to Title I of the Industrial Competitiveness Act (H.R. 4360) which was introduced in the 98th Congress by John J. LaFalce, Chairman of the Subcommittee on Economic Stabilization, on November 10, 1983, and was reported out of this Committee on April 10, 1984.

Beginning in May of 1983, the Subcommittee on Economic Stabilization held an extensive series of hearings in the 98th Congress focussing on the competitiveness problems of both mature industries and emerging sectors. Subsequently, the Subcommittee received further documentation of the competitiveness problems of U.S. industry in several months of hearings on trade, debt and competitiveness held during the first session of the 99th Congress.

During the course of these hearings, the Subcommittee heard from over 200 witnesses, representing all levels of government, the business community, labor, trade associations, the financial world, entrepreneurial interests, academia, community and citizens groups, and the military. Additional information and data were provided by studies done independently and under the auspices of the Subcommittee. In particular, the report issued in February of 1985 by the President's Commission on Industrial Competitiveness served to substantiate the Subcommittee's findings that the United States economy suffers from declining competitiveness and a failure to heed the signs of a changing global marketplace.

The need for a mechanism to confront the ills of our industries has been well-documented. Based on the knowledge and insights gleaned from the indicated studies and hearings, H.R. 2373 was developed to provide the basis for the creation of a badly-needed industrial strategy. The bill would create a Council on Industrial Competitiveness which would provide a forum in which government, labor, business, academia and public interest groups could work cooperatively to formulate a competitiveness strategy for our economy and for specific industries and sectors.

On May 7, 1985, H.R. 2373 was introduced in the House by John J. LaFalce, Chairman of the Subcommittee on Economic Stabilization.

On April 17, 1986, the Subcommittee on Economic Stabilization met to consider H.R. 2373. The legislation was reported out favorably, with amendments, to the full Committee on Banking, Finance and Urban Affairs by voice vote.

On April 22, 1986, the Committee on Banking, Finance and Urban Affairs met and ordered H.R. 2373 favorably reported, with one amendment, by voice vote.

SECTION-BY-SECTION SUMMARY AND DESCRIPTION OF THE LEGISLATION AS REPORTED

Section 1 states the short title of the bill to be the "Council on Industrial Competitiveness Act."

Findings and purposes

Sections 2 (a) and (b) specify the findings and purposes of the Congress.

Establishment

Section 3 establishes in the Executive Branch of the Government an independent agency to be known as the "Council on Industrial Competitiveness".

Duties of the Council

Section 4 establishes the duties of the Council, which include: developing and promoting policies to enhance productivity and competitiveness; assessing private sector requests for federal assistance and recommending actions for industry to take to ensure its future competitiveness in light of the assistance; collecting and analyzing relevant data; monitoring the ability of the United States industrial economy to respond to international competition; preparing and publishing reports regarding industrial development priorities; creating a forum where Council members from business, labor, academia, public interest groups and government can work cooperatively to develop consensus recommendations; establishing industry subcouncils; providing policy guidance to the Congress, the President, and the Federal departments and agencies; reporting annually to the President and the Congress; reviewing, evaluating, and transmitting specific policy recommendations developed by the industry subcouncils; and evaluating existing Government policies and business practices.

Membership

Section 5(a) directs that the Council be composed of sixteen members appointed by the President, which members shall have a broad understanding of the United States economy and the United States position in the world economy. Four members shall be heads of Federal departments or agencies, members of Congress or representatives of State or local governments; four members shall be from the business community, including at least one individual from the small business community; four members shall be from the labor community; and four members shall be from the academic community or shall be individuals who have been active in public interest activities.

Subsection (b) states that the Council shall not commence its duties until all non-Government members have been appointed and have qualified.

Subsection (c) states the Council's policy concerning vacancies.

Subsection (d) states that no member of the Council may serve more than two consecutive terms and that members may be removed by the President only for malfeasance in office.

Subsection (e) states that not more than nine members of the Council shall be members of the same political party.

Subsection (f) states that non-Government members of the Council shall have six-year terms and that the terms of the initial members of the Council shall be staggered.

Subsection (g) specifies the compensation levels for members of the Council.

Subsection (h) states that nine members shall constitute a quorum. A lesser number may hold hearings if two-thirds of the entire Council approves such action.

Subsection (i) directs the Council to elect, by a two-thirds vote of the entire Council, a full-time chairman from among the non-Government members.

Subsection (j) states that the Council shall meet at the call of the Chairman or a majority of its members, except that the Council shall meet not less than six times in each calendar year.

Subsection (k) requires each member of the Council to designate one alternate representative who, when substituting, shall be considered a member of the Council for all purposes, including voting.

Subsection (1) provides that no action whatsoever other than the calling of meetings shall be taken by the Council unless approved by two-thirds of the entire membership. In the event a two-thirds consensus cannot be reached, the Council shall transmit a report to the President and both Houses of the Congress explaining the reasons. Such report shall include all information gathered by the Council on the matter at issue and a list of potential policy options.

Subsection (m) provides that the Council may procure temporary and intermittent services at prescribed rates of pay.

Subsection (n) authorizes the head of any other Federal agency to detail, on a reimbursable basis, andy of its personnel to the Council to assist the Council in carrying out its duties, upon request of the Council.

Subsection (o) restricts from membership on the Council any individual that acted on behalf of a foreign government, agency or instrumentality during the one-year period prior to the effective date of appointment. After appointment to the Council, a member may not represent foreign interests in any manner.

Executive director and staff

Section 6 directs the Council to appoint a full-time executive director as the principal administrative officer of the Council, after consulting with the President and leaders of the Congress. The executive director shall appoint the personnel of the Council in accordance with the civil service and classification laws, within the limitations of the Council's appropriations.

Powers of the Council

Section 7 describes the powers of the Council. The Council is authorized to hold hearings, take testimony, receive evidence, and sit and act at times and places it deems appropriate. The Council is also authorized to administer oaths or affirmations to witnesses. Any member or agent of the Council can take any action the Council is authorized to take, if so authorized. The Council may, upon request, secure information necessary for the carrying out of its duties from other United States departments and agencies. The Council shall not disclose such information to the public unless the department or agency is authorized to disclose such information under Federal law.

The Council is also authorized to accept, use, and dispose of gifts or donations of services or property, use the United States mails as do other departments and agencies; and receive from the Administrator of General Services administrative support services upon a reimbursable basis.

The Council is also directed to establish industry subcouncils of public and private leaders when and for such periods of time as the Council deems appropriate. Subcouncil members shall serve on a part-time basis. These subcouncils are directed to examine the competitive problems facing specific industries and develop recommendations for solutions. The subcouncils are authorized to hold such hearings, sit and act at such times and places, take such testimony and receive such evidence as they consider appropriate. Industry subcouncils must report their findings and recommendations to the Council. The Council is directed to review subcouncil reports in preparing its own recommendations.

Effects of imports on domestic industries

Section 8 requires the Council to monitor the effect of imports on domestic industries.

Reports

Section 9 requires the Council to develop and submit certain reports, including a report, within one year after the date of enactment of this legislation, to the President and both Houses of Congress containing its recommendations regarding any changes in Federal policy necessary to implement effective industrial strategies and annual reports to the President and the Congress containing specified information and recommendations.

Authorizaton of appropriations

Section 10 authorizes the appropriation of $25,000,000 for fiscal year 1987 to carry out the provisions of the Act.

Definitions

Section 11 defines certain terms used in this Act.

STATEMENTS MADE IN ACCORDANCE WITH HOUSE RULES

In accordance with clauses 2(l)(2)(B), 2(l)(3) and 2(l)(4) of rule XI of the Rules of the House of Representatives, the following statements are made.

COMMITTEE VOTE (RULE XI, CLAUSE 2(l)(2)(B))

H.R. 2373, as amended, was ordered favorably reported by the Full Committee on April 22, 1986, by voice vote with a quorum present.

OVERSIGHT FINDINGS AND RECOMMENDATIONS (RULE XI, CLAUSES 2(l) (3) (A) AND (D), AND RULE X, CLAUSES 2(b) (1) AND (2) AND 4(C) (2)

Numerous private sector and government studies and extensive hearings conducted by the Subcommittee on Economic Statilizaton with witnesses from business, labor, academia, and government have provided ample documentation for the Committee's finding that the international competitiveness of United States industries has eroded and will continue to erode unless a concerted effort is made to reverse this decline. As illuminated by a series of hearings held by the Economic Stabilization Subcommittee on trade and competitiveness, U.S. trade problems are only partially due to external forces putting our industry at a disadvantage. A significant percentage of our trade deficit is attributable to inadequacies in our own policies, particularly our failure to coordinate the actions of government, business and labor in a constructive fashion. Structural problems in the American economy deserve to be addressed in a forum specifically atturned to the environment in which they arise. As attested to by the President's Commission on Industrial Competitiveness, the lack of such a mechanism in the United States is a detriment both relative to our foreign competitors and, in an absolute sense, to our own future.

A Council on Industrial Competitiveness would bring competitiveness issues to the forefront of our attention. Government policies that impact upon industry would become more explicit, as would the effect of government and industry policies on the United States economy overall. A Council would provide a means for parties with an economic interest to voice their concerns and to take responsibility for a strategic response to the changing international economy. The Committee finds that this legislation would aid in the development of a national competitiveness strategy for specific industries and sectors that will serve to improve the economy as a whole.

The recommendation of the Committee, therefore, is that the House pass H.R. 2373, as amended and ordered reported by the Banking Committee.

The Committee has received no findings or recommendations from the Committee on Government Operations.

INFLATION IMPACT STATEMENT

(Rule XI, Clause 2(l)(4))

The Committee estimates that this bill will not have any impact on any inflationary trends in the national economy.

COST ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE PURSUANT TO SECTION 403 OF THE CONGRESSIONAL BUDGET ACT OF 1974

(Rule XI, Clause 2(l)(3)(C))

The Committee has received the following report from the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 28, 1986.

Hon. FERNAND J. ST GERMAIN,
Chairman, Committee on Banking, Finance and Urban Affairs, House of Representatives, Rayburn House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for H.R. 2373, the Council on Industrial Competitiveness Act.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

RUDOLPH G. PENNER, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: H.R. 2373.
2. Bill title: Council on Industrial Competitiveness Act.
3. Bill status: As ordered reported by the House Committee on Banking, Finance and Urban Affairs, April 22, 1986.
4. Bill purpose: This bill would establish an independent agency to be known as the Council on Industrial Competitiveness. The council would report annually to the Congress on possible changes in federal industrial and trade policy. The bill authorizes the appropriation of $25 million for fiscal year 1987 for the council.
5. Estimated cost to the Federal Government:

[By fiscal years, in millions of dollars]

	1987	1988	1989	1990	1991
Estimated authorization level	25	26	28	29	31
Estimated outlays	23	26	28	29	31

The costs of this bill fall within budget function 370.

Basis of Estimates: CBO assumes that the bill will be enacted and that the full amount authorized will be appropriated for 1987. Because the council would be a continuing rather than a temporary body, the estimate assumes that sufficient amounts will be appropriated in future years to maintain the council's funding at the 1987 level, adjusted for inflation. The estimated outlays are based on historical spending patterns for similar agencies.

6. Estimated cost to State adn local governments: None.
7. Estimate comparison: None.
8. Previous CBO estimate: None.
9. Estimate prepared by: Jim Hearn.
10. Estimate approved by: C.G. Nuckols, for James L. Blum, Assistant Director for Budget Analysis.

ADDITIONAL VIEWS OF HON. MARCY KAPTUR

The amendment offered and adopted added to Section 5, Membership, subsections (o)(1) and (o)(2). The purpose of this amendment is to increase the effectiveness of the Council by ensuring that all its members are working in the interest of the United States. The amendment is designed to exclude from appointment solely those individuals who may have a direct conflict of interest as they are designing U.S. trade policy. Under the current language of the bill, the President of a foreign corporation, the president of Sony, of Toyota, or of Volkswagon, would meet the qualifications to serve on the Council.

The amendment which was adopted precludes individuals from appointment to the Council if, within one year period ending on the date of such appointment, that individual acted as an agent or attorney for, or performed any other professional service for or on behalf of, a foreign government, or an agency, instrumentality or political party of a foreign government, and provides that any member of the Council must resign from the Council if he or she acts as such during tenure on the Council. It way my intent to also exclude any individual who, within one year of appointment or during tenure on the Council, performs any professional service for any business which is organized, under the laws of, and has its principal place of business in, a foreign country. This amendment would disqualify from appointment an executive of a foreign corporation who may have a direct conflict of interest in designing and promoting U.S. trade policy, without affecting and qualification standards of any person engaged in business with a U.S. corporation, even if that corporation operates internationally or is involved in joint ventures with foreign corporations.

MARCY KAPTUR.

MINORITY VIEWS

We oppose H.R. 2373, which would establish a National Council on Industrial Competitiveness, as unnecessary, duplicative, and an intrusion into the workings of the market. While each of us may not subscribe to all of the reasons set forth in opposition, we do believe that this legislation, if enacted, will not enhance America's economic performance and competitiveness. Rather, it will add another costly layer of bureaucracy and present another obstacle to economic growth in this country.

We thoroughly agree with our counterparts that industrial competitiveness is central to the attainment of all of our national goals, whether they be providing for our national defense and the defenses of the non-Communist world or the economic well-being of our citizens. Indeed, few challenges today are greater than improving the competitiveness of the United States in international trade.

We recognize that changing dynamics in the international marketplace as well as deliberate actions by some governments in restraint of free and fair trade have combined to diminish the competitiveness of American goods and services. Because we cannot ignore these factors as well as certain critical determinants of long-term competitiveness, such as declining levels of productivity and investment rates, we believe the better approach to address these issues is to support the Wylie substitute when H.R. 2373 is considered by the full House. The Wylie substitute calls for the creation of a one-time, temporary Presidential Commission on Trade, with Congressional membership, to examine the factors affecting our larger trade picture and make recommendations to the Congress to improve our trading and competitive position in the world. This commission would not duplicate functions already being performed by other Federal entities. It would not skew interests along economic lines. Finally, and most importantly, it would cost the taxpayer only $500,000, in contrast to a new bureaucracy's initial price tag of $25 million annually.

FLAWS IN THE LEGISLATION

I. The premise underlying the need for the NCIC is wrong

The debate over whether this country has or needs an industrial policy and what role our Government should play in planning and pursuing specific policies to enhance industrial competitiveness has become widespread over the past several years. The debate began in earnest when our country plunged into recession in 1981. At that time, high inflation and interest rates took their toll on productivity. Levels of research and development were not sufficient to maintain our country's technological edge. Savings and investment levels reached troubling lows. And, Government policies and programs exacerbated, rather than remedied, these problems.

At that time, supporters of a new industrial planning council asserted that the United States was slow to accept and adapt to the reality of the global marketplace and that, in turn, this failure had led to the "deindustrialization" of America, accompanied by a shutdown of our manufacturing sector, loss of jobs, and a deterioration in the quality of jobs available to American workers. They also contended that while certain macroeconomic factors affected our economy's performance, our Government's microeconomic policies—or lack thereof—were the bigger culprit in contributing to America's economic decline. According to them, our microeconomic policies were *ad hoc* and often woefully deficient, splintered, uncoordinated, and irrational. In their view, the only way to reverse the disturbing trend was to design, through consensus building, some rational, coherent, and planned strategy to enable our economy to compete against its international couterparts.

We do not agree with the premise that the United States is deindustrializing and losing its competitiveness either at home or abroad. In rebutting this notion, we would offer some data of our own.

Over the last three years, the total volume of goods and services produced by the U.S. economy has advanced to a level ten percent higher than the previous peak in 1981. In the process, some nine million new jobs have been created, the unemployment rate has dropped from 10.7 percent to 7.1 percent of the civilian labor force, and the proportion of adults at work has risen to a post-war high of 60 percent.

It is also wrong to assert that there has been a massive and irreversible shift away from our manufacturing industries. In comparing our economic performance with that of the European economies, for example, we have outperformed virtually all of them since 1973. Between 1973 and 1985, U.S. industrial production grew at a rate almost double that of OECD Europe.

We recognize that the good news is marred by disturbing trends which, if not addressed in the long run, could obliterate some of the progress shown to date. For example, the economic recovery has been uneven and certain industries have not shared in the overall prosperity. Some, such as forest products, mining and certain manufacturing sectors have seen little or no employment growth since 1982. Argiculture has been especially hard-hit, with an actual loss of half a million jobs over this period.

We would note that the year 1985 has been one of transition for the U.S. economy. While the recovery, begun in 1983, lengthened, overall growth slackened toward the end of last year and the beginning of 1986. Certain sectors of the economy are depressed, impacted primarily by increased foreign competition (resulting from the substantial appreciation in the international value of the dollar that took place prior to March, 1985). Those industries producing goods for export found that the dollar's rise made their products more expensive in foreign markets while at home the high value of the dollar made imported goods cheaper compared to those produced by U.S. firms. We believe that most of these problems can justifiably be associated with the Federal budget deficit and high U.S. interest rates.

However, the causes of these problems are disappearing. Both interest rates and the international value of the dollar have come down, and monetary policy is being conducted with a view to accommodating these needed adjustments. Lower interest rates and a weaker dollar are expected to provide a basis for continued moderate but sustainable growth without additional inflation. The decline in the value of the dollar, in particular, should provide a boost to the economy. In fact, we have seen the beginnings of that boost even now: during the first quarter of 1986, the economy expanded at a healthy 3.2 percent after inflation rate, in contrast to the paltry 0.7 percent growth rate in the fourth quarter of 1985. This is reassuring, given the economic weaknesses of those sectors of the economy, most notably that of energy and agriculture, which are still in transition.

Despite the reassurances deriving from the recent plunge in oil prices, the lower value of the dollar, and declining interest rates, we do recognize that within the context of long-term global competition we cannot afford to be lulled into complacency. We must adjust to the new global competitive environment, something which we are fully capable of doing. But, we believe adjustment does not take place instantaneously, nor does it call for Government intervention through the creation of a new entity to provide consensus and cooperation on microeconomic policies. Rather, we envision Government pursuing policies which improve the global economic arena and enhance our own free market economic system.

II. Government cannot micromanage our economy or pick the economic winners and losers

As noted before, advocates of H.R. 2373 claim that Government has fallen woefully short in terms of its microeconomic responsibilities. According to them, we need a structure, with a membership drawn from the competing quarters of the economy, which can facilitate an open, participating, and balanced decision-making process and provide the recommendations for a "game plan" of Government policies which will best enhance America's competitive posture. They note that the Council will provide the forum where the adversarial pillars of the economy can exchange views on a nonadversarial basis and, in essence, bring harmony to Government policies.

While the bill's objective is laudable, we believe that such a council, as envisioned in the bill, is doomed to failure for several reasons.

First, we do not share the same faith as our colleagues that a central coordinating Council would be a purely advisory commission and insulated from political winds in either examining constantly changing economic factors or making dispassionate recommendations.

By its very nature, such a Council brings together various sectors of industry which have a complete distrust of inherent Government rationality and of each other. We find it hard to believe that the creation of a new bureaucracy would be capable of reconciling all the competing interests and needs that drive our Government system.

In fact, contrary to what its sponsors say, a new agency will not be able to foster consensus building and rationality in decision-making. Instead, it will engender a chorus of political demands and appeals to do more to help industries hurt by imports or blocked from exporting by unfair trade restrictions abroad, to shift tax policies to favor particular industries, to tilt Federal regulations one way or the other, etc. Indeed, what we will be confronted with are recommendations based on factional interests drawn along economic lines and limited to the judgment of a few individuals.

Proponents of H.R. 2373 disclaim this notion as an exaggeration and cite the Council's role as merely an advisory one. We would note, however, that the legislation expands the Council's role far beyond the limited function of providing a forum for consensus building. In fact, the Council moves beyond the realm of "adviser" to "micro-manager" of the economy.

In Section 4, this new Council is empowered to review all private sector requests for Government assistance and to "make recommendations as a condition of such assistance. . . ." Yet, the parameters of the Council's authority, in terms of what requests it can review or what types of recommendations it can make, are not defined anywhere in the bill.

Given this vagueness, we would submit there is nothing to prohibit the Council from intruding into and wielding inordinate power over all facets of our economy. For example, this new bureaucrary presumably can act upon a bank's request for temporary liquidity assistance through the Federal Reserve's discount window, or an exporter's application for a loan guarantee from the Export-Import Bank, or a steel manufacturer action for import relief under the Trade Act of 1974. We believe that this authority is arbitrary and impairs current and more efficient processes within our Government, most notably the departments and agencies charged with policymaking, oversight, and regulation of their specific industries. More importantly, it sets a dangerous precedent in that one entity can effectively control the planning of each and every sector of our economy. If the bill's promoters did not intend these kinds of results, then certain guidelines or restrictions should have been included in the Council's statutory charter.

Second, and more significantly, the legislation fails to recognize that this country already has a highly efficient mechanism for allocating the Nation's resources. It is called the market and through its system, resources are directed into their most productive uses. While our economy has been on a roller coaster in recent years and continues to face structural problems, brought about in large part by changing economic conditions, the solution is not Government involvement in the micromanagement of our industrial strategies.

In sum, we cannot substitute or supplement market-based investment decisions—decisions made by millions of investors and consumers— with the recommendations of an agency based in Washington, D.C. The marketplace already provides a forum in which to develop a consensus about those industries that are competitive and those that are not.

This is not to say we should discount the role of Government in the economic process. What we do emphasize is that Government cannot legislate success. As past experience has shown, direct Government intervention and support, as envisoned in H.R. 2373, cannot make a product commercially successful. Neither legislators nor bureaucrats can predict what technologies will succeed in the marketplace or what consumers are likely to prefer. We would offer as a final note that there is ample evidence that centrally planned economies are less efficient and less competitie than free market economies. This is borne out by the fact these nations are moving in exactly the opposite direction of what H.R. 2373 contemplates, that is, diminishing Government's role in planning and managing the economy.

III. The Council creates another costly Federal bureaucracy

H.R. 2373 creates a whole new, untested, and permanent Federal bureaucracy at a cost of $25 million in Fiscal Year 1987. We believe this is irresponsible legislation, particularly in today's economic climate, when Congress is grappling with an inordinate Federal budget deficit and struggling to control Government spending. Moreover, our history is replete with examples of bureaucratic entities created to study perceived problems in this Nation's economic fabric and to make meaningful recommendations. What inevitably happens is that we end up with another layer of bureaucracy, solving nothing and costing the American taxpayer in terms of dollars that could be used more productively elsewhere.

IV. The Council is duplicative and unnecessary

Under the legislation, the Council would have the responsibility of collecting and analyzing data on the competitiveness of U.S. industries, creating a consensus for long-term industrial strategies, and making recommendations based upon that consensus. We believe that these functions are duplicative of current efforts.

First, the Government already is gathering a huge amount of data from business. The primary entity that coordinates the collection and analysis of that data right now is the Department of Commerce. Further, the Administration currently devotes substantial resources to researching and analyzing the effects on the U.S. of foreign economic, trade, and investment policies. While this work is concentrated in several departments and bureaus (i.e., the Bureau of Labor Statistics, the Census Bureau, the Bureau of Industrial Economics, and the Council of Economic Advisers), it is coordinated by and between Commerce and the Office of the U.S. Trade Representative. The results of this continuing effort are made available to Members of Congress and the President through frequent reports.

In addition, the Administration has established, either on a temporary or permanent basis, advisory councils and commissions to assess this data and make recommendations regarding our economic competitiveness. Chief among these was the President's Commission on Industrial Competitiveness which conducted a through study of our competitiveness and reported its findings to the President in January, 1985. While the Commission was temporary, its recommendations did not fade away. To date, fully 90 percent of the individual action items recommended have been implemented.

Given the current structure, we see no need to duplicate the process and add another bureaucratic layer—particularly one which carries a price tag of $25 million for just one year.

CONCLUSION

We believe that Government can play an important, indeed pivotal, role in promoting economic competitiveness of industry. That role should be one which creates an environment that fosters economic growth, innovation, and successful commercialization. We believe its responsibility lies not in directing the activities of the private sector or "picking the economic winners and losers" through a new, untested bureaucracy, but rather in streamlining its own processes and creating an environment in which the individual and collective talents of the private sector can be focused to meet the competitive challenge.

First and foremost, Government can coordinate its fiscal and monetary policies to reduce further the Federal budget deficit, the dollar and interest rates, and to ensure price stability. This, in turn, will stimulate capital formation, investment, and, ultimately, economic growth. Reducing regulatory impediments on productive activity that are not justified in terms of cost/benefit analysis is another positive policy. Promoting tax incentives which stimulate research, development, and productive investments would allow the market to determine where funds should be spent rather than the Government dictating this function. Finally, assessing the trade laws in the context of promoting our ability to compete in world markets (including antitrust, export controls, reevaluation of GATT) would also enhance the free flow and fairness of world trade.

All of these factors are vital to the future growth, productivity, and competitiveness of our economy in the global market. No amount of government intervention into the microeconomic aspects of our economy will have any impact on them. And, at worst, Government intervention, via a centralized Council, will only serve to produce distortions and intensify our current problems.

For these reasons, we urge our colleagues to oppose H.R. 2373 and to give serious consideration to the Wylie substitute as a viable option for promoting U.S. economic competitiveness.

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JOHN HILER.
STEVE BARTLETT.
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J. ALEX MCMILLAN.

DISSENTING VIEWS OF HON. J. ALEX McMILLAN

The objectives of the bill's sponsors with respect to trade are laudable. While I do recognize that there is a lack of competitiveness in certain U.S. industries, I would question if the answer to this problem is going to be found by the creation of a Council on Industrial Competitiveness. Competitiveness will be determined by industry response to world markets. Government efforts should be directed toward achieving fair trade.

I would like to see the creation of a cabinet-level Department of Trade which would formulate trade policy as well as direct courses of action which would resolve the conflicts of competing interests. This approach would be consistent with that adopted by many of our trading partners in Europe and the Far East. The functions transferred to this Department should include the negotiation of bilateral agreements, the oversight of trade laws, and possibly the related enforcement responsibilities. within this framework, the Council could serve to monitor the Industry Consultation Program for trade policy matters as well as coordinate and analyze the data collected utilizing current apparatus.

This Department of Trade should serve to advocate United States interests, encourage full reciprocity of market access in international trade, and propose and execute policies to counter-balance subsidies and tariffs.

J. Alex McMillan.

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