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*Technology and Economic
Performance: A Rejoinder*

Murray Weidenbaum

September 1991
Special

Testimony presented to the Joint Economic Committee
U.S. Congress September 12, 1991

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**Technology and Economic Performance:
A Rejoinder**

by Murray Weidenbaum

Testimony to be presented
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Technological progress is a prime driving force in the global economy, which makes this hearing so appropriate.

But, the report of the Carnegie Commission on Science, Technology, and Government, which is a major focus of this hearing, is very disappointing. A distinguished group, the Commission contains many old friends and former colleagues. Its report raises important questions and makes some good points. However, it is fundamentally wrong in urging a larger role for government where the public sector has little capability and in ignoring the responsibilities that belong to government.

I have prepared a report with a different orientation and submit it for your consideration. I'll summarize briefly.

Competitiveness

The United States does not have a competitiveness problem. Allegations to the contrary do not justify a new federal role in technology. We do face a continuing competitiveness challenge. I don't mean to quibble. American-produced goods and services are more than holding their own in world markets. Our merchandise exports rose 74 percent over the ten years 1980 to 1990.

Note: Murray Weidenbaum is Director of the Center for the Study of American Business at Washington University in St. Louis. The views expressed are personal. This statement draws on his forthcoming book, *Small Wars, Big Defense* (Oxford University Press).

The United States does have a large, but declining, trade deficit. Merchandise imports rose more rapidly than exports in the past decade. In large measure, this reflects the fact that we are a high-consuming, low-saving society. This is an important concern to economic policymakers, but it transcends the issue of competitiveness and technology.

Surely our steady trade surplus in high-tech products belies the need for special government help for commercial technology.

Existing Policy Toward Science and Technology

Like many other areas such as education and retirement benefits, federal priorities on science and technology are arrived at indirectly — by adding up the parts of department budgets that go for research and development (R&D). A change in overall budget priorities can result in an inadvertent reduction in federal support of science and technology. A shift from defense (with a high R&D content) to entitlements (with no R&D) means a reduction in federal spending for R&D.

Nevertheless, there is no need for a "master plan" of federal R&D; NASA should not expand just because someone in the White House is anxious to support technology. But we should not ignore the adverse effects of large defense cuts on R&D, especially on basic research, where private firms underinvest for good reason. The Commission is misguided in urging DOD to spend more on basic research. Offsetting increases should go to civilian agencies such as NSF.

Proposed Support for Commercial Science and Technology

I have never met an advocate of socialism in the federal government. However, quite a few people want to add a "teeny weeny" bit of government intervention to help the business system work better. Over the years, numerous wasteful subsidies have been enacted — shipping subsidies, credit subsidies, synthetic-fuel subsidies. The

Commission's proposals for government support of commercially relevant technology fall in this category. Government has no capacity for choosing new technology.

One question is easy to answer: how would the government decide which industries and projects to support? Government favors politically powerful, older companies which have invested substantially in a Washington presence — and whose employees fear for their jobs.

New firms may be economically strong, but they are politically weak. They lack an extended record of political contributions or a large group of agitated employees/voters. The result is an uneven contest that favors old-line business and old technology over the new.

Former Senator William Proxmire, an active member of this committee for many years, was fond of saying, "Money will go where the political power is. Anyone who thinks Government funds will be allocated to firms according to merit has not lived in Washington very long."

The U.S.-Japanese semiconductor agreement illustrates the danger. The agreement helped some firms, but hurt our computer industry. The results were typical of special-interest legislation, benefitting some sector at the expense of the national interest.

Recall that in the early 1980s, the U.S. semiconductor industry outsold the Japanese. The Japanese responded by investing more than the Americans. By the middle 1980s, they began to outsell U.S. firms. Today, American companies are asking for a handout. That is an unjustified reward for poor business judgment, a terrible precedent for other companies to follow. Our answer should be clear: "Sorry fellows, welfare is for poor people."

The Boundary Between Government and Private Initiative

There is a modest role for government in supporting technology — issuing patents and setting technical standards. Under our private enterprise system, private firms decide where to invest and what risks to take.

Government should facilitate the flow of technology by creating a favorable economic climate. That role needs to be improved. The obstacles that government has erected should be reduced. What good would it do for the federal government to support high-tech enterprises, if at the same time government erects statutory and administrative roadblocks to the use of new technology? The hysterical reaction to the use of the protein BST in increasing milk production is not unique. Witness the spectacle of "consumer advocates" vehemently opposing the innovation because it would reduce the price of milk — and state legislatures caving in to this nonsense.

The United States boasts a world-class pharmaceutical industry. The government's response? FDA and congressional committees are "cracking down" on the industry. How will giving FDA unprecedented police powers accelerate the use of technology?

Because regulatory agencies often "grandfather" existing products, the main burden of expanding regulation falls on new undertakings and new technology. The most useful federal action to promote technology is to eliminate some of these governmental barriers.

The Role of Defense and Other Agencies

What should be the role of the Defense Department in promoting commercial competitiveness? The answer is zero. The Pentagon should reduce the obstacles to its procurement of state-of-the-art products available in commercial markets.

Some urge DOD to subsidize civilian technology because it is an important user. There is no limit to that line of reasoning. The military marketbasket ranges

from missiles to mittens, from ground support equipment to golf balls. Specialization of labor still holds, which is why the Defense Advanced Research Projects Agency (DARPA) works well — most of the time. DARPA should not become NARPA (the National Advanced Research Projects Agency), with a diffuse mission extending to all technology.

Lewis Branscomb of Harvard warns that defense R&D tends to be too slow, too centralized, and too micro-managed to be transferred successfully to the private sector. As an alumnus of the defense industry, I agree. Another federal effort to force-feed the process is wasteful.

Moreover, using the military budget to support civilian technology will politicize the process. Go no further than the Corps of Engineers for an illustration. The Corps' military functions are first rate. Its civilian dam building, in contrast, is embroiled in local politics.

Some urge the Commerce Department to invest more heavily in a technology base. A federal civilian bureaucracy determining which areas of technology to support is only marginally better than having the Pentagon do it.

The Carnegie Commission proposals do not deal with the fundamental conditions that encourage investment in civilian technology — lower cost of capital and expanding economic opportunity. The increase in budget deficits resulting from the Commission's proposals would make it more difficult to achieve those conditions.

According to a former Commerce Department official, business executives only "want the government involved in high-risk, long-term, expensive, high-technology research projects." But inevitably the political process will decide which lucky few are "high-risk, long-term," and "high-tech." Politically weak companies by default would not be "high-tech" or "high-risk" or "long-term."

My favorite recommendation to congressional committees considering proposed new federal spending is still, "Don't just stand there, undo something."