

# BUSINESS

THERE ARE MORE THAN 125 PROGRAMS IN THE FEDERAL BUDGET THAT SUBSIDIZE PRIVATE BUSINESSES IN ONE WAY OR ANOTHER, WITH TOTAL COSTS IN THE TENS OF BILLIONS OF DOLLARS. THE EXAMPLES ON THESE TWO PAGES ARE DERIVED MOSTLY FROM A BUDGET ANALYSIS DONE BY STEPHEN MOORE AND DEAN STANSEL OF THE CATO INSTITUTE.

1995 SPENDING (MILLION \$)	PROGRAM	SOME BENEFICIARIES
<b>INDEPENDENT AGENCIES</b>		
1,531	Small Business Administration	Subsidizes loans to restaurants, builders, other profit-making businesses. Loan guarantees have increased nearly 50 percent since 1993.
613	Export-Import Bank	Subsidizes international sales and purchases of corporations like Boeing, Westinghouse, GE, etc. Proposed funding for coming year: \$700 m.
211	Pennsylvania Avenue Development Corporation	Over the last two decades has underwritten private redevelopment of a dozen-block stretch of Pennsylvania Avenue in Washington, DC.
1214	Tennessee Valley Authority	Subsidized power for businesses and homes, plus river navigation services.
400	NASA Wind Tunnel	To be built at public expense to test new designs for commercial aircraft sold by private companies
<b>MULTI-AGENCY</b>		
246	Partnership for a New Generation of Vehicles	Gives GM, Ford, and Chrysler (combined 1994 profits: \$14 billion) money to develop new cars. Clinton has requested increase to \$333 m. next year.
4,111	CRADA and Tech Transfer Agreements	Assistance for private research and development.
1,080	High Performance Computing	Buys and networks computers for half a dozen universities around the country.
33	Overseas Private Invest. Corp.	Provides loans and insures private investors against foreign investment risks.
1,734	Civilian Technology Investment	Helps defense contractors try to make commercial products.
<b>DEPARTMENT OF AGRICULTURE</b>		
564	Agricultural Marketing Service	Promotes agri-business sales.
1,167	Farm Service Agency	Administers farm subsidy programs. Most of funding goes for administrative salaries.
709	Federal Crop Insurance Corporation	Subsidizes farmers' disaster insurance.
9,813	Commodity Credit Corporation	Makes direct payments to producers of feed grains, wheat, rice, cotton, and honey. Administers wool program.
497	CCC Export Guarantee Program	Provides loan subsidies for agricultural sales.
1,074	Nat. Resources Conserv. Serv.	Offers farmers free consulting on soil conservation.
128	Rural Electrification Administration	Subsidizes profitable electric utilities and consumer electric bills.
100	Rural Business Service	Loans, grants, and assistance for agri-businesses.
219	Market Promotion Program and Foreign Agricultural Service	Overseas marketing for U.S. businesses. Some recent expenditures: \$3 m. advertising Pillsbury muffins and pies, \$10 m. for Sunkist oranges, \$.5 m. for McDonald's Chicken McNuggets, \$1 m. for American Legend mink coats, \$2.5 m. for Dole pineapples, nuts, and prunes, \$5 m. hawking Gallo wines.
390	Export Enhancement Programs	Provides cash bonuses to agricultural exporters.
1,068	Foreign Assistance Programs	Subsidizes foreign giveaways of U.S. farm output.
150	Forest Service road construction	Subsidizes timber removal by private companies. 17,000 miles built/year.

# WELFARE

1995 SPENDING (MILLION \$)	PROGRAM	SOME BENEFICIARIES
<b>DEPARTMENT OF COMMERCE</b>		
240	International Trade Administration	Promotes exports of products from six industries to 10 specific countries.
45	Minority Business Dev. Agency	Subsidizes minority business people.
20	U.S. Travel and Tourism Admin.	Does foreign promotion for U.S. travel industry.
54	National Oceanic and Atmospheric Administration —various fisheries programs	Subsidizes boat building, product promotion, damage repair, and other services to fishing industry.
120	Economic Development Admin.	Provides “economic conversion” aid for defense industry.
431	Advanced Technology Program	Direct subsidies for research by high-tech firms like General Electric, Xerox, IBM, Kodak, DuPont, and Caterpillar. Begun by Clinton administration, which has requested increase to \$490 m. in this year’s budget.
91	Manufacturing Extension	Services to U.S. manufacturing companies. Begun by Clinton administration.
259	NIST In-house R&D	Pays for standards, data verifications, other services to industry.
<b>DEPARTMENT OF DEFENSE</b>		
443	Technology Reinvestment Project	Subsidizes development of computer displays, air frames, etc. Some 1994 awards: \$13 m. to Texas Instruments, \$6 m. to 3M company, \$7 m. to Rockwell, \$6m. to Chrysler. Begun by Clinton admin., which announces awards through the White House. \$500 m. requested for this year.
1,280	Community Adjustment Programs	Support for companies and places experiencing defense cutbacks.
1,504	Dual-use technology initiatives	More high-tech subsidies.
90	Sematech	Underwrites private companies that produce semiconductor fabricating equipment.
436	Cargo preference program	Underwrites U.S. shipping industry.
2,873	Army Corps of Engineers, civil	Constructs and maintains waterways, harbors, locks, etc.
<b>DEPARTMENT OF ENERGY</b>		
133	Worker and Community Transition	Pays bounties to those affected by nuclear defense reductions.
5,057	Various R&D activities	Pays for energy research at national labs and elsewhere.
288	Clean Coal Technology	Funds pollution-control projects at private coal-burning utilities.
390	Power Marketing Administrations	Subsidizes profitable electric utilities and consumer electric bills in 33 states. Charges buyers as much as 50 percent less than national rates.
<b>DEPARTMENT OF TRANSPORTATION</b>		
211	Highway “demonstration projects”	Congressionally earmarked giveaways to specific communities and businesses.
367	Federal Railroad Administration	Supports private railroads (other than Amtrak).
3,801	Federal Transit Administration	Subsidies to bus and rail authorities and companies.
8,677	Federal Aviation Administration	Provides subsidized air traffic services to airlines and private plane owners.
475	Selected maritime programs	Aid to U.S. shipping industry.

# The MITI Myth

CENTRAL PLANNING FAILS IN JAPAN

by Richard Beason and David Weinstein

With the arrival of the Clinton administration, proposals for “industrial policies” once again entered top policy-making circles in the U.S. government, with at least two cabinet-level posts—those of labor secretary and chairman of the National Economic Council—currently being filled by long-time advocates. Internationally as well, a recent World Bank report entitled *The East Asian Miracle: Economic Growth and Public Policy* endorsed selective uses of industrial policy. The fever has swept the Pentagon, where one of the top priorities has become that of identifying and supporting critical firms deemed to have high growth potential.

Much of the drive for these new efforts comes from a popular perception that the application of government industrial policies by the Japanese over the past four decades has produced great economic successes. But after careful study of government policies and business outcomes in Japan during the period 1955–1990, we conclude that this popular perception of success is wrong. Yes, some high-growth industries were targeted by Japanese industrial policy, and, yes, many Japanese bureaucrats and politicians have taken credit for the rapid economic growth in post-war Japan. Our research does not find, however, that Japan’s successes were the result of government policies. Our main conclusion, in fact, is that Japanese industrial policy actually seems to have transferred resources out of high growth sectors and into low growth ones instead.

The familiar argument that government targeting measures have driven Japanese development is put forward most concisely by Laura Tyson, former chair of President Clinton’s Council of Economic Advisors and now head of his National

Economic Council (itself a new creation inspired by industrial policy nostrums). Tyson argues that “protectionist measures, along with other critical elements of Japan’s development strategy, such as low-cost capital, research and development and other subsidies, and preferential tax policies, have been used to promote the domestic development of industries targeted

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JAPAN, READ GOVERNMENT  
WHITE PAPERS, TALKED TO  
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AND CAME HOME WITH  
STORIES OF HOW WELL  
INDUSTRIAL POLICY WORKED.  
THEY WERE WRONG.

by the Japanese as critical to long-run growth and technological change.” Tyson’s advocacy of managed or “results oriented” trade in this country, in fact, stems largely from her belief that Japan’s mightiest industries would not have succeeded without government assistance and direction. Learning from the Japanese, we cannot rely on markets to achieve “fair” outcomes—we need to regulate trade through the use of “numerical targets” (quotas) determined by governments and lobbyists.

But is it really true that Japan provided its fastest growing sectors with critical support? On the face of it, Japanese performance in high technology fields has been astounding. But then what would one expect from a country that graduates more engineers than the United States despite having half the population?

Still, the fact that Japan may be reaping the benefits of fiscal responsibility, high savings, and a solid educational system does not preclude the possibility that Japanese industry was substantially helped by the government. Indeed, considering the stories of assistance to steel, autos, semiconductors, and computers that advocates of industrial policy continually regale us with, one might be tempted to believe that if it weren’t for Japan’s Ministry of International Trade and Industry (MITI), the Japanese would just be making textiles and rubber-soled shoes.

The industrial policy stories, however, are fundamentally unconvincing for most economists for several reasons. First, the fact that government helped an industry and it grew does not imply that government assistance caused the growth. Proponents of Japanese industrial policy don’t often talk about Japanese aircraft projects, biotechnology projects, or the fifth-generation computer project—because these and many other industrial policy favorites like them yielded few positive results. Second, many of MITI’s projects were in place for years or decades before the successful industry actually took off. The waste associated with having a policy in place ineffectually for a long period until an industry is ready to grow is never considered by advocates of government supports.

Most fundamentally, economists are mostly unmoved by industrial policy claims because, as George Stigler has quipped, “the