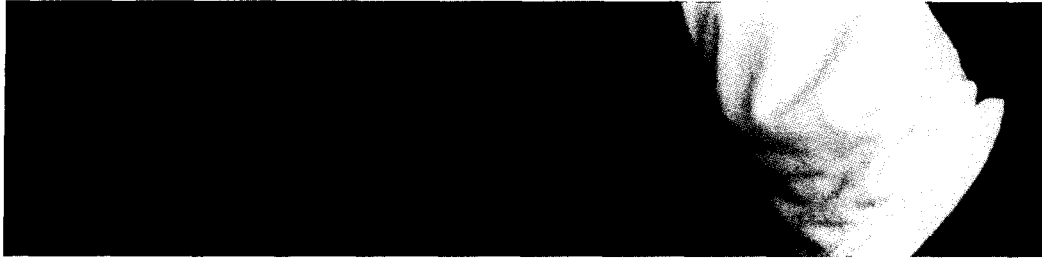


10 Rules of the road

by Robert D. Atkinson



A New Economy requires a new framework for government and public policy. To be effective, this framework must be consistent with the unique properties and logic of the New Economy. The following 10 “rules of the road” were developed as signposts to guide local, state, and federal policymakers in crafting a policy framework for the New Economy.

Robert D. Atkinson is director of the Technology and New Economy Project at the Progressive Policy Institute. These principles are based in part on a report from the Institute's New Economy Task Force, entitled Rules of the Road: Governing Principles for the New Economy. The task force is co-chaired by U. S. Senate Democratic Leader Tom Daschle and Ted Waitt, chairman of the board of Gateway Inc.

The report is available at http://www.dlcppi.org/ppi/tech/tech_taskforce.htm.

RULE #1 Spur Innovation to Raise Living Standards

New economic research shows that innovation plays a central role in productivity growth in the New Economy. Innovation and productivity are the prerequisites for higher wages and expanded opportunity; they are also critical to addressing a host of social needs, from averting a future Social Security crisis to improving human health and solving global warming. As a result, government must be on the side of policies that boost innovation and foster higher productivity. It should oppose policies that seek to divide a slowly growing pie, protect or reward special interests at the expense of overall economic progress, or slow down the process of change.

Innovation and change are disruptive. They displace workers; they cause firms, and even entire industries, to fail; they lead to industrial and economic restructuring in cities and sometimes even in whole regions; and they upset traditional ways of doing things, making some skills obsolete. There is every reason to believe that this will be true in the New Economy and spark strong political demands to insulate affected segments of the economy and slow down economic change.

Such demands, while understandable, inherently deny opportunities to less politically powerful interests in the guise of “protecting” those with clout. For example, there is a risk that the Internet revolution will be held back as old economy actors, such as travel agents, stock-brokers, college professors, car dealers, and wine wholesalers, seek to use government to shelter them from the threat of innovative and more productive e-commerce companies. If government is to promote fast-growing, widely shared prosperity, it must facilitate, rather than resist, economic modernization.

RULE #2 Expand the Winner's Circle

Ensuring that the benefits of innovation and change are spread broadly will require that all Americans, including those not yet engaged in or benefiting from the New Economy, have access to the tools and resources they need to get ahead and stay ahead.

As the economy has become increasingly volatile and knowledge-based, success for people, organizations, and entire communities is more than ever determined by the ability to learn and adapt. Government needs to counterbalance the tendency toward a new division of society based on cognitive ability, learning, and skills.

As the economy churns — destroying some jobs while creating others — government needs

for governing in the New Economy



to ensure that employee benefits like health insurance and pensions are portable, that workers can access a state-of-the-art system of rapid re-employment, and that all workers have expanded opportunities for capital ownership. In a skill- and knowledge-based economy, government must provide every American with access to continual and affordable lifelong education.

As information technology becomes increasingly important, government needs to enable widespread access by ensuring that public libraries, schools, job centers, community centers, and all regions of the nation are connected to the Internet and that individuals have the skills they need to use these technologies.

RULE #3 Invest in Knowledge and Skills

To spur innovation and equip citizens to win in the New Economy, government should invest more in the knowledge infrastructure of the 21st century: world class education, training and lifelong learning, science, technology, technology standards, and other intangible public goods. These are the essential drivers of economic progress.

A global, hyper-competitive economy has made it increasingly difficult for the private sector to maintain its investments in these kinds of activities, especially training and mid- to long-term research. Therefore, government investments in science and technology should be increased, and private sector research should be encouraged by expanding and making permanent the R&D tax credit and supporting industry-university collaborative R&D. Moreover, government should increase its investments in education and training, as they are critical to ensuring that companies have the skilled workers they need, and that workers have the skills they need to prosper in the New Economy.

RULE #4 Grow the Net

The Internet is a critical component of the emerging digital economy. In the old economy, the key driver of economic growth was mechanization of production. In the New Economy, the key driver will be digitization.

Policymakers should craft a legal and regulatory framework that supports the widespread growth of the digital economy in such areas as taxation, encryption, privacy, digital signatures, telecommunications regulation, and industry regulation (in banking, insurance, and securities, for example). For example, government should avoid adopting privacy regulations requiring "opt-in" and other stringent rules that would limit innovation and "mass customization."

RULE #5 Let Markets Set Prices

In the old economy, government often regulated prices when national markets were dominated by oligopolies or monopolies. In those cases, the economic costs of government intervention were manageable. But in the new, more competitive economy, distorted prices are much more likely to lead to economically inefficient decisions by consumers and producers.

"To spur innovation and equip citizens to win in the New Economy, government should invest more in the knowledge infrastructure of the 21st century."

"The Federal Communications Commission should set rules to open telecommunications markets to robust competition and ensure network inter-operability and consumer protection."

Therefore, in the absence of clear market failures, markets, not governments, should set prices of privately provided goods and services.

In this critical transition period, policymakers must embrace forward-looking, innovation-producing investments (e.g., industry-university collaborative R&D) while at the same time distinguishing between programs that address legitimate market failures and industry subsidies, price supports, and regulated prices that foster economic inefficiency. Government must strive to reduce or eliminate the tariffs, the unnecessary price regulations, and the array of government protections for entrenched interests that do not increase the economy's innovative or productive capacity. For example, federally subsidized flood insurance is an incentive for more homeowners and companies to locate in flood plains, which ultimately drives up the overall cost of flood damage. Similarly, controlling the costs of health care is a noble goal, but doing so by setting the prices of drugs or medical devices in the long run only restricts innovation and lowers the quality of medical care.

RULE #6 Open Regulated Markets to Competition

Economists have long acknowledged that competition keeps prices down. The New Economy creates another critical reason for competition: competition drives innovation and ultimately provides the greatest benefits to consumers. Of course, government must continue to provide commonsense health, safety, and environmental regulations. However, government should move away from regulating economic competition among firms and instead promote competition to achieve public interest goals of lower costs, new products, and greater consumer choice. For example, the Federal Communications Commission should continue to set rules to open telecommunications markets to robust competition and, once that occurs, to step back and ensure network inter-operability and consumer protection. For example, the FCC has made entry into long distance markets by local telephone monopolies contingent on the companies' opening their existing wired networks to competitors.

RULE #7 Let Competing Technologies Compete

In the New Economy, technology is not just the province of Silicon Valley; it is the catalyst for profound change throughout the economy and society. Technological innovation has now become central to addressing a wide range of public policy goals, including better health care, environmental protection, a renewed defense base, improved education and training, and reinvented government.

We should look for technology-enabled solutions to public problems, but not so that today's winners are frozen in place at the expense of tomorrow's innovators. As a case in point, in the 1980s the French government made an early leap into the Information Age by providing free Minitel terminals to all French households. However, because the Minitel systems are incapable of supporting modern Internet technology, France became locked in to an obsolete technology and now lags significantly behind in Internet usage. Given today's rapidly changing technological capabilities, locking in any particular technology through regulation or massive public investment would run similar risks.

RULE #8 Empower People With Information

In the old economy, information was a scarce resource to which few outside of large corporations and governments had access. In the New Economy, access to information is becoming ubiquitous, giving individuals greater power to make informed choices. Governments should encourage and take advantage of this trend to address a broad array of public policy questions by ensuring that all Americans have the information they need.

For example, policymakers have required TV manufacturers to install the violence-blocking V-chip to give parents control over objectionable programming. But the application of the principle of providing people with tools and information to make informed choices goes far →

What Works/Chicago manufacturing center

Manufacturing extension partnerships help small businesses adapt / by Erik Gunn

For most of its 55-year history, Panek Precision Machining in suburban Chicago was a shoestring operation — a small job shop that CEO Gregg Panek says “used to make machine parts for anybody.”

A few years ago, though, the company narrowed its focus. Today more than 80 percent of Panek Precision’s business is making components for suppliers in the auto industry: specialized nuts and cylinder ends for shock absorbers, machined components for exhaust systems, and more. And Panek Precision has been on a roll, its annual sales leapfrogging by 20 percent to 25 percent a year. This year the company is on track to take in \$17 million in revenues. Employment has risen smartly, too, to more than 100 people.

The booming economy, a robust auto industry — all have helped. But they only tell part of the story. Gregg Panek gives much of the credit for his company’s growth spurt to the Chicago Manufacturing Center (CMC).

CMC is part of a national “manufacturing extension partnership” network established by the U.S. Commerce Department’s National Institute of Standards and Technology. The network is made up of private agencies that contract with the government, and the manufacturing extension centers operate much like the agricultural extension agents who helped spread the secrets for better and more productive crop yields to the nation’s farmers. These centers offer world-class expertise to the nation’s hundreds of thousands of small manufacturers. CMC consultants have advised more than 1,000 Chicago area companies in the last six years, helping them to ratchet up productivity, raise quality standards, and implement a wide range of cost-cutting improvements.

Never have small companies been more in need of outside help. In the current environment of intense global com-

petition, small manufacturers face a dilemma. The pressure to drive out excess cost forces them to keep operations as lean as possible. At the same time, though, more and more of the big companies that they serve impose rigorous quality standards, which usually can be met only with specialized expertise that the small company typically lacks and can rarely afford to build in-house.

The latest set of such standards can be found in the auto industry, where manufacturers now require their suppliers to be certified as meeting a set of quality standards known as QS 9000. Panek Precision — just one of scores of companies that the Chicago Manufacturing Center has advised on QS 9000 certification — is in the final stages of meeting the standard. Panek Precision turned to CMC for guidance on selecting and installing a new computer network and related software capable of turning out the sort of detailed information that the new standard requires. More recently, the agency has helped the company make sure it can comply with the standard, and helped prepare it for formal certification.

CMC and the other 400 manufacturing extension partnership centers across the country target small to mid-sized firms that employ up to 500 people. These businesses account for nearly 99 percent of the nation’s manufacturing companies and employ two-thirds of the manufacturing workforce. Yet despite their significant role in the economy, “small companies are not even on the radar scope” of the big consulting firms that advise large corporations, says George Alukal, CMC’s vice president of corporate quality and performance.

Because they are not just another layer of bureaucracy but rather contract agencies that must derive some of their revenues from client fees, manufacturing extension partnership centers are a blend



MEETING THE CHALLENGE:
Refined quality controls keep Panek competitive.

of government and the private sector. CMC is illustrative: About 30 percent of its funds come from the federal government; 40 percent from the city of Chicago, surrounding counties, and the state of Illinois; and the rest from the modest fees it charges client firms. Moreover, says Helen Squires, CMC’s vice president for corporate and client communications, to keep the government funds flowing the agency is accountable for results: A year after the agency completes a project, telephone surveyers ask the client to quantify the project’s benefits in terms of job creation and retention, sales increases, capital investment, or savings in labor, materials, or inventory costs.

Measures such as those reflect government’s underlying interest in supporting manufacturing extension partnership centers like the CMC. By helping companies become more productive, they can help stabilize and expand the local economy, its jobs, and its tax base.

At Panek Precision, the company’s future as an auto-industry supplier will turn on its QS 9000 certification, now in its final stages. There’s no question in Gregg Panek’s mind where credit will belong. “We couldn’t have done it on our own,” he says. “We wouldn’t have even known who to call.”

Erik Gunn is a freelance journalist based in Wisconsin.