The New York Times

January 31, 2011

'Picking Winners' Has Long U.S. History

By PETER BEHR of

While the conservative mantra suggests the government is no good at picking winners, the U.S. practice goes back to the time of the Founding Fathers. But it has rarely been done without controversy and debate.

Today, the concern is the rising market power of China and whether the federal government can or should try to "pick winners" in a swirling global competition where ideas and capital know no borders.

In the 1980s, the issue was semiconductors. The challenger was Japan.

Japanese semiconductor firms backed by the *keiretsu* system of close-knit business alliances posed an alarming threat to U.S. companies that had pioneered the technology. The result was a series of interventions by the administrations of Presidents Ronald Reagan and George H.W. Bush, acting under pressure from Congress, to defend the U.S. industry.

Trade actions slowed Japanese imports, and government research dollars were invested in government-industry consortia aimed at strengthening U.S. firms.

U.S. chip makers and the Defense Department created an industry consortium in 1987 called Sematech, based in Austin, Texas. It successfully shifted its focus from the production of semiconductor chips to building up the supply chain of U.S. manufacturing infrastructure that supported chip producers.

Other high-profile efforts since the 1970s failed or fizzled, on the other hand, including a government-backed synthetic fuels project, a proposed supersonic commercial airliner, flat-screen technology and the hydrogen-powered car. Conservatives and pro-market economists have insisted then and now that it is futile and costly for government to try to pick winners in competitive markets.

The issue has a pedigree, but remains dicey

"There are lessons from the past" about government-directed manufacturing initiatives, said Daniel Griswold, director of the Center for Trade Policy at the Cato Institute, speaking in 2009, as the Obama administration launched its advanced battery funding initiative. "And they are almost all negative."

Former Commerce Department official Kent Hughes, in his book "Building the Next American Century," counters that "pure" competition is a myth in a global economy where governments of industrial nations use trade policy, currency regimes, research support, education policies, intellectual property rules, subsidies and research to help boost priority industries.

"There are many examples of how federal research support has helped stimulate the development of new technologies, which, in turn, have fostered new industries, spurred growth, and created new job opportunities," Hughes writes. Biotechnology, advanced aircraft components, space industry spinoffs, the Internet and now cybersecurity stand out as examples.

As it was at the start of the information technology age in the 1980s, the United States is at a policy threshold over clean energy today, with believers in limited government and market solutions lining up to battle industrial policy advocates.

Andy Grove, who, as chief executive of Intel Corp., weathered the Japanese semiconductor thrust then, warns that the odds for U.S. companies this time are even more daunting.

In a widely commented-on *Bloomberg BusinessWeek* article last summer, "How America Can Create Jobs," Grove said that having a world-class research establishment and venture capital culture isn't enough. The United States has to find a way to scale ideas into industries, he said.

"The scaling process is no longer happening in the U.S. And as long as that's the case, plowing capital into young companies that build their factories elsewhere will continue to yield a bad return in terms of American jobs."

For more news on energy and the environment, visit www.climatewire.net.
ClimateWire is published by Environment & Energy Publishing. Read More »