



INDUSTRY & GOVERNMENT: SOME REALITIES OF TODAY'S WORLD

BY RALPH GOMORY

Too often I am reluctant to read a newspaper or see the news. After all, this is my country, and it is painful for me to see it, day after day, struggling with chains of its own devising and suffering from self-inflicted wounds.

Too many of us still interpret the world through the twin lenses of free trade and total government non-interference. Too many of us regard having any government policy in industry as gratuitous interference with the natural and beneficial functioning of the free market system.

I am a graduate of that school of thought myself. I have felt the entrepreneurial spirit, the freedom of being able to act and follow one's dreams rather than being bound in bundles of government red tape. I understand this very well, and I wish that we lived in a more perfect world so that nothing more than that was needed. But we don't.

While we talk about free markets and government non-interference, other nations are busy subsidizing and building up key sectors of their economies and, in this process, destroying key sectors of ours. They have grasped the obvious: a nation that leads the world in the most productive sectors of the economy will be rich, while countries that special-



ize in what is left will be poor. And while this is going on we continue to mutter about more "sophisticated" ideas like comparative advantage.

If, after our War of Independence, the newly created United States had built on its compara-

tive advantage, it would have emphasized agriculture and exporting raw materials for others to make into finished products. Fortunately, Alexander Hamilton rejected that direction previously advocated for the colonies by the

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British, who wanted manufacturing for themselves.

But we do not have Hamilton with us today. Instead we have too many people who see—in the destruction of our key industries by organized actions from abroad—nothing more than the operations of a perfectly free market. We also have an elite industrial leadership that too often sees itself with no other duty than maximizing the price of their company's stock, even if that means offshoring the capabilities and know-how for advanced production to other nations that have no free markets themselves.

Do these corporate actions indicate a failure of human

by and allowed this one-sided destruction to go on.

I am not asking our government to step in and run industries. I have something quite different in mind. I am asking government, as the representatives of the American people, to decide what we want from the corporations that operate in our country, and to reward those that, acting freely and competitively, perform well on those criteria, productivity being high among them.

Our government should not pick companies to favor; it should simply reward the companies that

For more information, please see the following articles by Ralph Gomory in *The Huffington Post* (www.huffingtonpost.com):

Country and Company: Part I—Divergent Goals: March 16, 2009

Country and Company: Part II—Aligning Goals: May 6, 2009

Manufacturing and the Limits of Comparative Advantage: July 8, 2009

productive entity is rewarded.

Manufacturing clearly has a productivity history that gives it priority. We should clearly reward productive manufacturing. But we should also reward intelligent users who use tools and ingenuity to become more productive in whatever they do. Higher education was, until recently, untouched by technology, but we have now found new ways that enable people to learn online without the long and time-consuming trek to the classroom. Medical care is clearly an area in which entrenched habits and interests prevent the productivity that is inherently possible. We should make sure that in our country productivity becomes the path to profitability.

One evident aspect of reality is that we cannot have success with any real economic policy, including this one, if we do not balance trade. Foreign governments can be extreme in their quest for dominance in specific industries. We have seen that recently in China's effect on the tire industry, and, unfortunately, we all know of many other examples.

“Our government should not pick companies to favor; it should simply reward the companies that are productive.”

nature? Are our corporate leaders indifferent to the fate of our country? No, I have known too many of them to believe that. I believe that this problem, at its heart, is a fundamental failure of our own government. Our government does not ask our corporations or their leaders to build productivity here in America, much less does it provide incentives for them to move in that direction. Rather, our government, captured by the delusion that it is watching free markets at work, has too often simply stood

are productive. We already use the corporate income tax rate to incent R&D in any corporation. We could use it to reward the success of any corporation creating high value add per U.S. employee. This is only one of many possible examples.

Other nations encourage specific industries because they are productive and therefore make their nations richer, with the potential for well-paying jobs. Let us go one better and make our country a place where any

However, for the first time in a long time, our government has reacted strongly against allowing this latest drive for manufacturing dominance to succeed. That reaction, together with a new focus on manufacturing, may indicate that our government is beginning to realize that we have no control over our own economic destiny when we allow unbalanced flows of subsidized goods to destroy, at will, productive sectors of our economy.

In the long run, sporadic reaction is not enough. We must balance trade; this guarantees that any inflow of goods is matched by an equivalent export of goods made in this country. We are fortunate that in tackling the balance of trade issue we are not obliged to just nibble around the edges of the problem. If we want, we can choose to address it effectively and directly as Warren Buffet suggested years ago when he proposed his Import Certificates plan.

And let us not neglect the moral dimension. Let us make it right and admirable for corporations to consider high wages for Americans as part of their jobs, and for outstanding products to be something in which they take pride. Those who cannot remember may think I am dreaming, but I am not. Until the 1980s the dominant view of the role of corporations was the stakeholder view, which included, along with profits, all the considerations I have just named and more.

The time has come for us to shake ourselves free from the

delusions that shackle us. Let us both stimulate and reward the constructive energies of the American people. Let us urge government to value productivity and high-wage employment, and reward those who provide them. Let us urge on our government the necessity of balanced trade, and let us do that in spite of the cries from those who currently find it more profitable to participate in and develop unbalanced trade. Let us all in our various ways start to clarify the role of the American corporation and

find ways for our companies to serve shareholders, employees and the nation. 🌟

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