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## Overview: Reflections on Industrial Policy

### Conflicts Ahead On "The Next American Frontier"

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Public policy is seldom made by a process that permits and encourages adequate thinking. All too often, once a problem is recognized, there is an immediate leap to a specific proposed solution. Possible disadvantages of the proposed remedy are rarely weighed against expected advantages. The remedy is made to seem simple and noncontroversial when in fact it is neither. In some cases the causes of the problem may not have been correctly identified; in others, remedies are left undeveloped. The policy proposal is frequently made on a take-it-or-leave-it basis. What is actually just one choice out of many is presented as if it were the only choice.

A better model of policy-making would slow down the rush from problem to solution. The policy-maker would ask many more questions. Conflicts would be brought to light and scrutinized. There would be time to ask whether the problem is one that can best be solved by policy-making or whether it is best left to trial and error.

Economic proposals should be examined with an especially high degree of skepticism. Economic thinking often elevates mythology over reality. Such thinking commonly assumes that individual and institutional behavior can readily be changed by readjusting incentives and rewards. Moreover, economics is part of a larger system of values that constitutes the "social environment" in which we live. Interventions

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designed to solve a specific economic problem may affect the entire social environment in unforeseeable ways.

Nevertheless, the economy has attracted many intrepid policy-makers. In recent years, a major concern has been the obsolescence of older American industries. Products made in the United States have difficulty competing with foreign imports. Dead-end jobs and unemployment deprive many workers of the security and satisfaction that are basic to a healthy society. This malfunction of the economic system has led to proposals for an "industrial policy" designed to encourage industrial adaptation and evolution. In turn, "industrial policy" proposals provide an opportunity to observe and reflect on the policy-making process.

Industrial policy has attracted favorable interest from liberal Democrats, labor leaders, and business executives. These groups are seeking an economic policy that does not repeat mistakes of the past but that offers more promise than contemporary economics, particularly to the unemployed and those workers whose jobs are not secure.<sup>1</sup> Whenever there is news of the closing of older plants and the loss of jobs, the perceived need for some remedy such as industrial policy becomes more urgent.

Perhaps the most persuasive exposition of industrial policy is found in Robert B. Reich's book *The Next American Frontier*.<sup>2</sup> Mr. Reich, a professor at Harvard's Kennedy School of Government, believes that obsolete institutional structures are a major cause of our economic problems. He envisions as a solution an unprecedented collaboration between government and industry. Government would play an active role in helping industry to adapt to social change:

Government, working hand in hand with management and labor, can ease the transition out of declining segments of industries and into emerging ones. In this way, the nation's industrial evolution can be accelerated rather than stalled.<sup>3</sup>

Robert Reich sees institutional obsolescence in the mass production industries. He favors "flexible systems" that can use machinery and labor in a number of different ways, and that produce higher value-added goods.<sup>4</sup> Mass production, Reich argues, also wastes the nation's

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1. See, e.g., *Industrial Policy: Is it the Answer?*, Bus. Wk., July 4, 1983, at 54, 61-62; *Firm U.S. Policy to Guide Growth of Industry Urged by Labor Chiefs*, N.Y. Times, Oct. 3, 1983, at A1, col. 1; *A Plan for Restoring U.S. Industrial Role Advocated in Study*, N.Y. Times, Jan. 12, 1984, at A1, col. 1 (describing report of Industrial Policy Study Group of the Center for National Policy).

2. R. REICH, *THE NEXT AMERICAN FRONTIER* (1983) [hereinafter cited by page number only].

3. R. Reich, *Industrial Evolution*, DEMOCRACY, Summer 1983, at 10, 13.

4. Unlike high volume, standardized production, "flexible-system" production, as Robert

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“human capital.” The workforce is either not trained at all or trained for declining industries rather than for emerging industries that use flexible-systems production.<sup>5</sup>

In Mr. Reich’s view, government’s interventions in the economy are also obsolete. Incentives now work against industrial adaptation. Social programs for people in need often do not help them to become part of the productive economy. Furthermore, industry and government are unnecessarily separated from each other. Their bureaucracies are parallel, but remain “two cultures,” one pursuing the goal of prosperity, the other historically concerned with the goal of social justice. Mr. Reich believes that these two goals must be sought together, and that government and business enterprises must openly work together.<sup>6</sup>

In place of incoherence, Robert Reich seeks to encourage restructuring of industry along the lines of greater flexibility, more highly skilled labor, a more democratic workplace:

In broad outline, the system may look like this: Government will assist businesses in modernizing and adapting their production processes. But instead of outright giveaways—like the countless tax abatements, tax credits, accelerated depreciation rules, subsidized loans, loan guarantees, tariffs, quotas, marketing agreements, and price supports that now cushion American business against change—this new form of assistance will be tied explicitly to upgrading capital and labor. Businesses will be contractually obligated to restructure themselves, as a condition for receiving the assistance.<sup>7</sup>

The proposed collaboration of government and business also includes training and retraining workers. Mr. Reich writes that “we could provide unemployed workers with vouchers that they could cash in at companies for on-the-job training . . . . Any workers unemployed longer than three months would be eligible.” The companies would pay half the costs and the training would match specific industrial needs.<sup>8</sup> Another type of voucher would be made available “to any worker who has been employed for more than two years at his present job and wishes to upgrade his skills. The vouchers could be cashed in at universities or

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Reich defines it, relies heavily “on the skills of . . . employees, which are often developed within teams. And [it] require[s] that traditionally separate business functions (research, design, engineering, purchasing, manufacturing, distribution, marketing, sales) be merged into a highly integrated system that can respond quickly to new opportunities.” Pp. 129-30. Products requiring precision engineering, testing and maintenance, customized products, and products depending on rapidly changing technologies are examples of this “technically advanced, skill-intensive” type of industry. *See generally* pp. 127-39 (discussing nature of flexible systems production and its growing use in the industrialized world).

5. Pp. 201-25.

6. Pp. 3-21.

7. Pp. 246-47.

8. Pp. 239-40.

accredited training facilities, which would be reimbursed by the government."<sup>9</sup>

Two other institutional changes should be mentioned. First, there would be an advisory board, perhaps located within the executive branch of government, to engage in coordination and planning. Second, there would be a system of regional banks to provide funds for the restructuring of declining industries and investment capital for emerging industries.<sup>10</sup>

Looking ahead, Robert Reich sees a time when working in a business enterprise would be the source of an individual's "membership" in society.<sup>11</sup> Social services such as health care, Social Security, day care, disability benefits, unemployment benefits and relocation assistance would be administered by companies for their employees and their families with the participation of employee representatives.<sup>12</sup>

Business enterprises, therefore, will largely replace geographic jurisdictions as conduits of government support for economic and human development. Companies, rather than state and local governments, will be the agents and intermediaries through which such assistance is provided.<sup>13</sup>

Pragmatic critics question whether the nation's government and businesses are capable of acting in the rational way that industrial policy assumes.<sup>14</sup> Ideological critics are concerned with preservation of the so-called "free market." In the words of one commentator, "Reich looks upon the conventional view of free markets and hotly competing business units with a showy disdain."<sup>15</sup> Other observers merely profess confusion. A lead editorial in the *New York Times* was headed "Industrial Policy. What?" The editorial continued, "Sounds important. What is it?" Answering its own question, the *Times* said, "So far, it's an idea in search of definition. Until defined, it's just a slogan."<sup>16</sup>

Robert Reich's book attempts with considerable success to answer

9. *Id.*

10. Pp. 243-45. Robert Reich has advocated that the "federal government might establish regional banks to provide low-interest long-term loans" to industries seeking to upgrade their infrastructure. P. 243. Other well-known industrial policy advocates, however, have sought to promote a nation-wide industrial bank. See, e.g., Rohatyn, *Time for a Change*, N.Y. REV. BOOKS, Aug. 18, 1983, at 49 (advocating a new Reconstruction Finance Corporation).

11. P. 267.

12. P. 248.

13. *Id.*

14. See, e.g., Schuck, *Industrial Policy's Obstacles*, N.Y. Times, Sept. 6, 1983, at A23, col. 2.

15. Ulmer, *The War of the Liberal Economists*, COMMENTARY, Oct. 1983, at 53, 55.

16. *Industrial Policy. What?*, N.Y. Times, Sept. 1, 1983, at A26, col. 1. In a later editorial, the New York Times further expressed its skepticism. "[T]he current disarray in fiscal and monetary policy . . . are already clearly government responsibilities . . . . What reason is there to think it would do any better carrying out an 'industrial policy'?" *Industrial Policy=Industrial Politics*, N.Y. Times, Jan. 23, 1984, at A16, col. 1.

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these critics. But he presents his ideas in a matter-of-fact way that suggests no controversy or conflict. He writes of “well-designed adjustment policies—through which government seeks to *promote* market forces rather than to supplant them”<sup>17</sup> and of “merely altering the mix of tax incentives and subsidies flowing to American business.”<sup>18</sup> He concludes that “[t]aken together, changes like these would constitute a modest start to a dynamic economy.”<sup>19</sup>

In common with many other policy-makers, Robert Reich does not view his task as including an appraisal of the conflicts, costs, and problems that his proposed solution might create. Neither does he adequately measure his own suggestions against alternatives. Such discussion of public policy proposals tends toward advocacy rather than a scientific effort to find or invent the best possible response to a given problem.

The day of scientific policy-making has not yet arrived. Harold D. Lasswell and Myres S. McDougal, both long-time members of the Yale Law School faculty, will be remembered as pioneers of the scientific approach.<sup>20</sup> At a minimum, their approach would require the policy-maker to search out and examine issues that proponents of a particular policy have failed to consider. This commentary highlights, in abbreviated form, some such questions concerning industrial policy.

### I. *The Conflict Between Allocation and Neutrality*

There is a conflict between government’s function as an allocator of

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17. P. 234.

18. P. 239.

19. P. 243.

20. See, e.g., Lasswell & McDougal, *Legal Education and Public Policy: Professional Training in the Public Interest*, 52 YALE L.J. 203 (1943). As one who was fortunate enough to have been a law student of Professor McDougal, I still find the following words written by him and Professor Lasswell inspiring:

Every policy proposal and decision . . . turns in part upon a picture of significant changes in the recent past, and expectations about significant changes in the emerging future . . . . The results of trend-thinking must continually be evaluated by the policy-maker in the light of his goals; the task is to think creatively about how to alter, deter, or accelerate probable trends in order to shape the future closer to his desire.

Implementation of values requires, next, scientific-thinking . . . . In a democratic society a policy-maker must determine which adjustments of human relationships are in fact compatible with the realization of democratic ideals . . . or . . . the realization of human dignity . . . . In short, the policy-maker needs to guide his judgment by what is scientifically known and knowable about the causal variables that condition the democratic variables.

*Id.* at 213-14. See also McDougal, *The Law School of the Future: From Legal Realism to Policy Science in the World Community*, 56 YALE L.J. 1345, 1349 (1947) (stating that the time has come for legal analysis “to be supplemented by purposeful, unremitting efforts to apply the best existing scientific knowledge to solving the policy problems of all our communities.”).

resources, and government's role as a "neutral" committed to equal treatment of all citizens. Industrial policy would put government in the position of giving substantial benefits to some companies but not to others. If the criteria for choosing recipients of benefits were vague, it would be difficult to explain government's choices. Inevitably, government would thereby lose some of the neutrality needed to govern effectively.

Making an equitable and understandable distinction between business enterprises given assistance and those refused assistance may be an impossible task for legal principles to perform. If we imagine an administrative hearing where a disappointed applicant for benefits challenges an allocation decision, we can visualize the problem of making distinctions based upon a vague concept such as "industrial policy." We might see the growth of a new branch of administrative law, with lengthy hearings, evidence, arguments, rulings, appeals, and doubtless new subject headings in the legal digests.

Governmental actions that help some industries and their employees without similarly aiding other industries—which may even be allowed to go bankrupt—will not readily be understood or accepted by the public. It is true that government already engages in allocation, and that industrial policy would give coherence to actions that now are incoherent. But purposeful discrimination may more readily lead to challenge than do those policies that are merely chaotic.<sup>21</sup>

Robert Reich is able to avoid the appearance of stark allocation decisions in his industrial policy programs by portraying them as indirect policy mechanisms. The government is expected to influence private industry by using indirect means, rather than direct requirements, to bring about changed behavior. For example, Mr. Reich proposes "tax credits for company investments in employee retraining," "antitrust exemptions for undertaking research joint ventures and consolidating older plants," and "a requirement that those firms or industries receiving import protection simultaneously retool and retrain."<sup>22</sup>

No matter how indirect or seemingly neutral such industrial policy ideas appear, however, recipients and nonrecipients will surely be aware of whom government has favored. This is a time when mistrust of gov-

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21. A recent analysis suggests that the issue of industrial policy could cause a deep split within the traditional Democratic coalition. "The Democrats are divided over how to respond to . . . profound change. Should they retain their traditional identification with growth and free trade? Or should the party represent itself as the champion of smokestack America, resisting technological change and foreign competition?" Lazarus & Litan, *The Democrats' Coming Civil War over Industrial Policy*, ATL. MONTHLY, Sept. 1984, at 92, 94, col. 2.

22. R. Reich, *How to Help America Compete*, N.Y. Times, Sept. 30, 1983, at A31, col. 2.

ernment and law is already a major issue. If industrial policy further undermined public trust, the price to the nation might be greater than any benefit.

## II. *Training Vouchers vs. Personal Autonomy*

Significant disadvantages arising from industrial policy might also be felt by workers. For example, while employees would be trained or re-trained in skills needed by a company, the training programs would give employers new powers over the individual. Presumably, companies would choose the skills to be taught to their workers. These skills might narrow employment opportunities and make a worker more dependent on a particular employer. What would happen to the trainee who flunks the course, or the trainee who graduates only to find that expected jobs are not available? Would there be any review of arbitrary action by companies?

In any training system, those who teach and grade performances have a great deal of discretion. It would be very easy to weed out “trouble-makers” or to ignore the needs of those workers with special learning problems. Trainees are more vulnerable than ordinary employees, and yet employees have needed a growing list of legal protections against employer discretion.<sup>23</sup>

Seen as entitlements, proposals such as Robert Reich’s training vouchers raise other questions. Are they transferable—for example, from husband to wife if the husband becomes disabled? Are the entitlements portable, so that an employee of one company could obtain on-the-job training at another company? Could an entitlement be denied because the applicant had failed to register for the draft?<sup>24</sup> This latter possibility is the sort of cynical requirement that Congress often attaches to government benefits, thereby demonstrating that what looks like an entitlement is merely a “privilege” that can be taken away without due process of law.

The argument that those seeking an entitlement from government should demonstrate their willingness to serve in the armed forces appeals to the emotions but not to logic or justice. If food stamps were denied for the same reason, the discrimination against the poor would be obvious; if passports were denied for failure to register, it would be

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23. *See generally* INDIVIDUAL RIGHTS IN THE CORPORATION (A. Westin & S. Salisbury eds. 1980) (essays on rights of employees).

24. *Cf.* *Selective Service System v. Minnesota Public Interest Research Group*, 104 S. Ct. 3348 (1984) (upholding constitutionality of statute denying federal financial aid to male students who fail to register for the draft).

apparent that a right, and not a mere gratuity from government, was being abridged.

Vouchers and other entitlements would thus put the autonomy of workers in jeopardy from both government and corporate high-handedness. The more structured a society becomes, the more autonomy is at risk. If the price of autonomy is not having a job, few will be able to afford autonomy. Robert Reich expects that workers' disability benefits and other government entitlements, their social lives, and even their political influence, will come under the expanded jurisdiction of corporate employers.

### III. *The Alliance Between Government and Industry*

Perhaps the most serious disadvantage of industrial policy would be the further erosion of the line that separates government from private industry. Robert Reich strongly favors breaking down the boundaries that now exist between "the realm of government and politics" and "the realm of business and economics."<sup>25</sup> "In advanced industrial nations like the United States," he writes, "drawing such sharp distinctions between government and market has long ceased to be useful."<sup>26</sup>

One way to look at industrial policy proposals is that government would be asking corporate America to undertake certain public functions. In return, government would "pay" for the performance of these functions. The payments would be represented by the various inducements suggested by the advocates of industrial policy. Just as the government pays private contractors to produce goods to be used by the military, so government would pay contractors to produce "human capital" to strengthen the nation's economy.

Mr. Reich seems to believe that America's future is tied to the future of large corporations. He writes that "[b]y 1988, if present trends continue, 300 giant firms will produce half of the world's goods and services."<sup>27</sup> "It is becoming clear," he contends, "that America's economic future depends less on lonely geniuses and backyard inventors than on versatile organizations."<sup>28</sup> Indeed, Mr. Reich says, government and the corporate sector are already working together more than people realize or are ready to accept:

Because neither government nor business can admit to the intimacy of their relationship, both sides treat it as an illicit affair, hiding it from pub-

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25. P. 4.

26. P. 5.

27. P. 266.

28. P. 279.



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lic view and thereby undermining the chances for those aspects of the relationship that do promote positive adjustment to earn cultural legitimacy.<sup>29</sup>

Although Robert Reich may be correct about the present intimacy of government and corporations, he may be wrong to see this collaboration as inevitable and healthy. There is one striking omission from his book: He never views the corporation as a social institution that frequently misuses power. He does not confront the corporation that exploits, the corporation that habitually tells lies, or the corporation that uses bankruptcy law to avoid its responsibility to its employees.

### IV. *Foreclosing a Wider Choice of Remedies*

Beyond the possible disadvantages of industrial policy for participants, there is the larger question of whether the proposals would prove an effective remedy for America's industrial problems. Robert Reich sees the nation's problems as consequences of short-sighted management. As he sees it, management did not anticipate successful foreign competition, or the obsolescence of plants using the mass production methods of an earlier era. Lulled by the past success of mass production, and avid for what Mr. Reich calls "paper profits,"<sup>30</sup> management allowed industry to slip into obsolescence and vulnerability to foreign competition. Mr. Reich describes management's self-deception as arising from what he calls "paper entrepreneurialism." "We cling to the fiction of an economy based on transactions in real goods and services," he contends, "when, in fact, a significant portion of economic activity is purely symbolic—founded upon the manipulation of abstract rules and numbers."<sup>31</sup> An even greater negligence was management's indifference to the needs of the work force, resulting in an erosion of human capital in dead-end jobs and chronic unemployment.

Is this a correct diagnosis of industry's ailments? Nations with systems very different from ours are suffering similar economic decline. Many of our own problems appear to be shared by West European democracies as well as East European Communist countries. Are management mistakes to be viewed as causes or as symptoms? And if as symptoms, what is the larger problem?

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29. P. 234.

30. "Paper profits," according to Robert Reich, are created by "the manipulation of rules and numbers that in principle represent real assets and products but that in fact generate profits primarily by the cleverness with which they are employed . . . . [I]nnovations have not been technological or institutional . . . . They have been innovations on paper . . . . [O]ver the past fifteen years, America's professional managers have become paper entrepreneurs." Pp. 140-41.

31. P. 232.

In recent years, scholars and observers have offered diverse ideas about the illnesses of industrial economies. An illuminating book by Alan Wolfe, *America's Impasse: The Rise and Fall of the Politics of Growth*,<sup>32</sup> questions the validity of the "economic growth" concept. "Growth" may be illusory if social costs are not included on the balance sheet. Or "growth" may occur in areas such as defense, which beyond a certain point do not serve human needs. Or "growth" may be lopsided, causing severe distortions of the system.

Another theory about our economic failures argues that the corporation has become so inclined toward power, and so disinclined toward the best interests of the community, that the consequence is large-scale waste that itself becomes a burden great enough to drag down the economy. Three scholars make this argument in *Beyond the Waste Land: A Democratic Alternative to Economic Decline*.<sup>33</sup>

Going beyond such institutional and environmental theories is the view that technology itself produces a one-sided ideology harmful to economic progress.<sup>34</sup> This argument is particularly significant for proposals that look to "high-tech" enterprises as the emerging industries that will save the American economic system. "High-tech," as represented by new firms in California's Silicon Valley or on Boston's Route 128, provides the model for Mr. Reich's idea of "restructuring," including a more flexible system of production and a more democratic workplace. These same areas of the country have also provided evidence of a growing human cost among employees of high-tech firms.<sup>35</sup>

With several theories to explain the problems of industry, there might be many solutions to choose from. But Robert Reich implies that there is only one choice:

America has a choice: it can adapt itself to the new economic realities by altering its organizations, or it can fail to adapt and thereby continue its present decline.<sup>36</sup>

Must we decide only between economic decline and public assistance to large corporations and some of their employees? Why, we may ask,

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32. A. WOLFE, *AMERICA'S IMPASSE: THE RISE AND FALL OF THE POLITICS OF GROWTH* (1981).

33. S. BOWLES, D. GORDON & T. WEISSKOPF, *BEYOND THE WASTELAND: A DEMOCRATIC ALTERNATIVE TO ECONOMIC DECLINE* (1983). See also Squires, Moody, Simon, Bowles, Gordon, & Weisskopf, *Beyond the Wasteland: Industrial Policy for the Left*, *NATION*, Sept. 8, 1984, at 167.

34. McDermott, *Technology: The Opiate of the Intellectuals*, N.Y. REV. BOOKS, July 31, 1969, at 25. See also J. ELLUL, *THE TECHNOLOGICAL SOCIETY* (1964).

35. C. BROD, *TECHNOSTRESS: THE HUMAN COST OF THE COMPUTER REVOLUTION* (1984) (discussion, by a psychotherapist, of the "altered lives" that are the negative result of high-tech).

36. P. 21.

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should management be trusted enough to play a vital role in our economic future, when its record is one of complacency, short-sightedness, and failure to assume responsibility?<sup>37</sup> Apparently Mr. Reich believes that a combination of jolting setbacks and government benefits will cause management to change its ways. But this assumption rests on the premise that corporate problems are caused by obvious mistakes that can readily be corrected.

It should be recognized that there is a conflict between the corporate way of life and the spirit of entrepreneurship. Many corporations have bureaucracies as slow-moving and closed to innovation as those we see and criticize in big government. Decisions are made by committee, a system that gives little opportunity to individual innovation. It is more difficult for a large organization to take risks, and also more difficult for it to stay in touch with a changing culture.

Many observers believe that America is entering a "post-industrial" era.<sup>38</sup> Industry will give way to services and information. Corporate stodginess will yield to new risk-takers. The creative individual will be seen as the chief source of wealth. This would suggest that there is another available choice: "post-industrial policy." With a post-industrial policy, America might leap farther into the future, yet along lines that have already been set forth by many thinkers. Industry and large corporations would remain, but the trend would be toward entrepreneurship, invention, imagination, and products to serve a continuously growing vision of human possibility.

Offsetting the prevailing view of American society as dominated by large bureaucratic institutions is a vision that focuses on decentralization, community reliance, and participatory democracy. In another generation, when monopoly, oligopoly and giant-sized business enterprises first began to threaten the "beautiful" aspects of "smallness" that some thought basic to American values, the antitrust laws were seen as a weapon that would at least slow this trend. Even by the time of Thurmond Arnold and his trustbusters, however, the legal world had already reinterpreted the antitrust laws so that they could not adequately serve

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37. Economist Robert Lekachman has also expressed this concern over Robert Reich's proposals:

Unhappily, Mr. Reich puts the burden of these managerial transformations upon the very executives whom earlier he convincingly convicted of neglect of human beings, obsession with short-run financial results, bloodless indifference to the fate of the communities they deserted and complete readiness to shift to any location in the universe where labor is cheap and docile . . . .

Lekachman, Book Review, N.Y. TIMES BOOK REVIEW, Apr. 24, 1983, at 1, 18-19 (reviewing R. REICH, THE NEXT AMERICAN FRONTIER (1983)).

38. *E.g.*, D. BELL, THE COMING OF POST-INDUSTRIAL SOCIETY (1971); R. LOUV, AMERICA II (1983).

their intended purpose. The "curse of bigness" was allowed to continue.<sup>39</sup>

To another generation, perhaps unfamiliar with such concepts as "trusts," the inefficiency and undesirability of excessive mediating structures still bring calls for simplification and local control of economic institutions. The popularity of the book *Megatrends*, by John Naisbitt,<sup>40</sup> is testimony to the fact that the themes the book discusses—individual and local autonomy—are still values cherished by many Americans.

The intelligent course of action at the frontier of knowledge is to experiment by trial and error. Economic health would consist of great variety and the willingness to try untested ideas. A healthy attitude would consist of accepting the idea that we find ourselves facing the unknown. We need only to have confidence that, given enough freedom, we can if necessary create answers that no one has yet imagined.

For the new age, the healthiest capitalism would be life-enhancing to both workers and consumers at a time when personal growth and a wide variety of lifestyle choices are major concerns of the American people. "Lifestyle capitalism" would produce goods that have a lower proportion of unrenovable natural resources and a higher proportion of cultivation and human input.<sup>41</sup>

#### V. *Conflict with the Existing Social Environment*

A wider task for policy-making should be to assess the impact of policy proposals on existing values. A proposal that might affect the natural environment must often be accompanied by an environmental impact statement.<sup>42</sup> A proposal that might affect the social environment deserves a similar analysis of its impact on social values. The social environment includes institutions, laws, principles, the political and economic system, and much more. Any change in one area of the social environment may affect everything else.

One function of a "social impact statement" would be to protect so-

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39. See generally E. F. SCHUMACHER, *SMALL IS BEAUTIFUL* 66 (1983) ("Today, we suffer from an almost universal idolatry of giantism. It is therefore necessary to insist on the virtues of smallness—where this applies.").

40. J. NAISBITT, *MEGATRENDS* (1982).

41. For example, in 1980 two young men invested \$5,000 each to form California Cooler, Inc., a company that sells one product only, the California Cooler, a mixture of two plentiful beverages, one half white wine and one half fruit juice. Annual sales are now approaching \$35 million. It is significant that American lifestyle culture has the power to cross any border, whereas ideology cannot cross. Even such an ideological fortress as the Soviet Union has been penetrated by cultural ideas originating in the Western democracies. There may be no defense system that can stop the advance of the California Cooler. *Beach Party Brew Ferments Big Business*, San Francisco Chronicle, March 19, 1984, at 53, col. 2.

42. 42 U.S.C. 4332(2)(c) (1982) (National Environmental Policy Act).

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called "traditional values." People are often concerned by the loss of such values but unable to identify the factor causing their loss. For example, if industrial policy undermined autonomy, people might feel coerced but might not understand where the coercion was coming from. An impact statement might anticipate that one of the "side effects" of industrial policy could be this loss of independence. Even in a more democratic institutional structure, autonomy may be jeopardized if workers are excessively dependent on the enterprise. If, as Mr. Reich suggests, benefits such as health and unemployment assistance are channeled through the employing firm, the danger to autonomy would be greater and the need for protective measures more urgent. Made aware of this problem, policy-makers might, for example, seek to broaden the employment vouchers to include training and retraining for an entirely new enterprise, not just another industrial job.

An impact statement could also alert people to the fact that even a careful intervention in the social environment could have unforeseeable consequences. Social machinery does not always function as expected. For example, the government might use its new allocation powers under an industrial policy to reward political friends and punish political enemies. This is a danger whenever discretion plays a major role in determining who will receive valuable benefits. Policy-makers should always be aware of such possibilities and weigh them in the balance.

Another function of an impact statement might be to describe alternatives to industrial policy. We have grown accustomed to a political style in which leaders fail to mention other choices and allow the public to believe that the choice the leaders favor is the only available option. This undermines democracy. If the public was informed of all the choices and of the advantages and disadvantages of each, democracy would be strengthened.

The ultimate task of policy-making is to set priorities. For every society, priorities are a life-or-death issue, just as they are for any individual.<sup>43</sup> Industry is only one sector of a society's economic life. Which sectors should be given priority? Industrial policy, as Robert Reich describes it, gives a priority to the evolution of the industrial sector. What other priorities, when placed alongside industrial evolution, will give the society of the future balance, harmony, and health?

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43. See Shearer, *Planning with a Political Face*, NATION, Dec. 31, 1983—Jan. 7, 1984, at 694, 695. ("What industrial policy lacks is a political vision of what the economy ought to be producing, how resources should be allocated and who should decide those matters. It ignores the fundamental question, How are priorities to be established?")