



VIEWPOINT

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increasingly important in the modern economy, and that some advantage could accrue to the country that was at the leading edge. As the United States clinched its reputation as the dominant commercial producer in the world with the introduction of IBM's System 360 in 1964, other countries began to take notice. Germany, France, Great Britain, and Japan all initiated national efforts to build and strengthen domestic industries to manufacture main frame computers.

The British attempt to bolster its domestic computer manufacturing is particularly poignant because the country emerged from World War II as well situated as any nation to compete in this arena. The National Research and Development Corporation (NRDC), a government agency, made computer manufacturing a priority. The NRDC offered research and development grants to firms such as Ferranti and Elliott Brothers, but after proposals were submitted to NRDC, the firms waited for the bureaucrats and committees of experts to decide which technology was worth pursuing, so expert judgment replaced the market test.

The firms were reluctant to proceed without the subsidy because government agencies would purchase computers from the subsidized firms to protect the NRDC investment. Later, when the government forced the consolidation of the industry in an effort to strengthen it, politicians simply decided where they wanted the jobs and ignored everything else - including the fact that different technological approaches were being pursued in different locations. Before the end of the entire sorry chapter in the 1980s, the government was simplifying project objectives so that the subsidized domestic firm (ICL) could compete with the foreign firm (Honeywell, which used more British components than ICL), forcing changes in management and dictating the terms of mergers, the location of activities, and the focus of research and development. Even

The Long Abandoned Road of Industrial Policy

By William S. Peirce

Last year's House and Senate hearings on the subsidy for the big three auto makers evoked memories of other failed forays into industrial policy, namely that of the computer manufacturing industry in the 1960's.

The world seemed to realize that computers were going to be

the Thatcher government held that failure was not an option, so it arranged what amounted to a takeover by Fujitsu.

Japan did end up with an industry for manufacturing main frame computers, but at an enormous cost to users and taxpayers. The Japanese Ministry of International Trade and Industry (MITI) severely restricted imports of computers and the number that could be manufactured in Japan by IBM. A leasing firm, run by the industry and subsidized by taxpayers, set standards while allowing competition among Hitachi, Fujitsu, and NEC. MITI set a goal of protecting the industry temporarily until the domestic firms could compete against the IBM System 360 without any help. Just as Hitachi and Fujitsu were closing in on that goal in 1970, IBM announced the System 370, and the Japanese firms were once again laggards until they acquired technology by purchase and collaboration that enabled them to compete in world markets. The bureaucrats of MITI had set a laudable goal, but the firms had to break away from MITI's control to achieve it.

While Japan and various European countries pursued different policies, none could be considered successful if cost were a factor. All of the governments missed the two big technological revolutions: first, as computerization advanced, the basic mainframe box became less important than the software that ran in it, and, second, that the personal computer would come to dominate so much of the market for computing capacity. Politicians and bureaucrats, after all, are not selected for ability to make technological forecasts.

As the United States considers proceeding down the long abandoned road of industrial policy, it is worth looking over the cliff at the wreckage of previous expeditions and asking whether we want a committee of politicians and bureaucrats steering the vehicle.