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ADDRESS OF

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BEFORE

THE CONFERENCE BOARD PROGRAM

"POLITICAL ACTIVISM: THE CORPORATE DILEMMA" ?

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IMPROVING INDUSTRY-GOVERNMENT  
COOPERATION IN POLICYMAKING

The subject you have chosen for your meeting here today, "Political Activism: The Corporate Dilemma," is especially timely as we move ahead into the fanfare and political rhetoric of another election year. It seems to me, that any discussion on political activism must be framed in the context of the broader concerns on how industry and government can work more effectively together to achieve common goals in the interest of overall national objectives.

There are numerous areas of common concern but five emerge as subjects which will have a major impact on our entire economy in the 1980's. They have a common thread. In all five of these areas both industry and government must play a role in finding solutions to the problems which they raise. This will demand more effective communication and more effective action programs than I believe we have in place today.

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The first of these concerns is the decline in the rate of our productivity growth in recent years. Following a 20-year period after World War II when U.S. productivity grew at an average of 3.2 percent, our productivity growth rate began to drop about 12 years ago to the point where, in recent months, we have suffered an actual decline in productivity.

This deterioration over the 1970s is relatively unique. In fact, the United States shows the lowest rate of productivity growth among the major industrial nations over the last two decades. For the years 1960-1977, our growth rate in national productivity grew only 2.6 percent compared, for example, to Japan which enjoyed an 8.8 percent growth rate; France a 5.7 percent rate and West Germany, 5.5 percent.

The cost of our recent productivity stagnation has been enormous. It has accelerated the pace of inflation. It has weakened the position of the dollar. It has made U.S. exports less competitive. And, most troublesome of all, it has reduced confidence in ourselves and in our institutions. The Joint Economic Committee recently called our sluggish productivity growth "the most important factor contributing to our present economic malaise." The causes for this reversal are undoubtedly many and there is no readymade solution.

However, I am certain of one thing: That improvement will require the cooperative efforts of all sectors of our economy-- government, industry, labor. Last year the General Accounting Office invited 16 leaders from industry, labor, and academia to help us pin

point specific problems which should be addressed. The group identified some 39 separate issues. We did not reach a consensus on all of them; however, all agreed that the government and the private sector have to work together to remove disincentives and create new incentives for productivity improvement. I am encouraged by the growing efforts to identify productivity problems and opportunities--the growth in the number of labor management committees; the establishment of productivity centers, many of them university-related; and actions being taken within the Federal Government to spearhead government efforts in this vital area.

The Secretary of Commerce on February 29 announced the establishment of a new Office of Productivity, Technology, and Innovation to "work with the private sector to identify targets of opportunity for advancing industry's development and its competitive position in world markets." The Secretary emphasized that to be successful we must have a close working relationship with private industry and with labor.

Encouraging as these developments are, much remains to be done by way of reexamining disincentives created by government regulation, by extending the development of labor management committees, to create tax incentives through accelerated depreciation or tax credits, to improve federal patent policies, and, indeed, to improve the productivity of the public sector as well.

Within the last month legislation, based largely on GAO's recommendations, was introduced by Senator Lloyd Bentsen and Congressman Stanley

Lundine that would create a strong central focus for Federal efforts to help improve private sector productivity. The proposed productivity council would incorporate an advisory board drawn from the private sector and would serve as an advocate within the Federal Government for regulatory and tax policies designed to promote productivity.

Other industrial countries have effective productivity centers and have found ways to achieve close harmony among government, industry, labor, and academia in attacking productivity problems. They have been successful primarily because they have accurately gauged the needs of the private sector. Perhaps we can learn from our own experience in developing the most productive agricultural economy in the world. All sectors of our economy played a vital part in reaching that goal. It is a strong precedent.

The second of these concerns is inflation--a growing cancer in our economy for which there is no easy cure. The proposed solutions are many, and the prospects of reversal of the record rates of inflation seem remote. All would agree I believe, that any solutions will involve sacrifices but the rewards will be great if we succeed. Above all, we must avoid becoming an "indexed economy." There are signs that this can happen. Over half of the total Federal budget is now indexed and more and more we find pressures for indexing everything from interest rates to taxes, pension funds and wages. This may not happen overnight, but the pressures for it to happen are growing and the results, in my opinion, would be disastrous.

While avoiding the superficial attractiveness of statutory wage and price controls, we must nevertheless conscientiously observe wage and price guidelines. If such guidelines are accompanied by a firm and carefully orchestrated set of policies to restrain demand, they can exercise important restraints and dampen the fires which feed the inflationary spiral.

The third, and related, area in which I believe there is a critical need for cooperation between industry and government is in the arena of Federal regulations. We must find some solution to the dilemma which we face in dealing with regulations, particularly those regulations which have come about in recent years designed to protect our environment, our safety, and our health.

The growth of regulation is underscored by the fact that some 26 new regulatory agencies have been established in the last 15 years. It is further underscored with a recent statement of the Council on Environmental Quality informing us that total pollution abatement expenditures over the 10 year period 1978-87 will require more than \$700 billion in outlays by taxpayers, consumers, industrial firms, and municipalities if statutory objectives are to be achieved. The burden on the industrial sector is illustrated by the fact that for air pollution controls alone total expenditures will approximate \$306 billion, with industry and utilities paying over 90 percent of the cost. These costs, for the most part, will be passed on to the consumer in the form of higher prices, providing a further stimulus to inflationary pressures.

Legislation is pending in both houses of the Congress for regulatory reform to provide better criteria as to whether and when benefits outweigh costs of regulations. The legislation further calls for stricter analysis of the impact of regulations before putting them into effect, and better congressional oversight.

Certainly this is a matter of highest priority for all who are concerned with striking a balance between the need for protection of our health, environment, and safety, and the need to minimize the burden on the economy resulting from these regulations.

Fourth, is the growing concern from our continued adverse balance of payments and our reduced ability to compete in foreign markets to offset the costs of highly priced imported oil.

GAO has taken a position on trade and payments matters, including Government export promotion and financing, Government administration of buy-national, unfair trade, import relief, and export control legislation. We have expressed the view that international trade is vital to the U.S. economy, noting the great number of jobs associated with it as well as the economic and political benefits of a stable trading environment.

We believe there is wide support in the private sector for Government change in the trade area. This support is borne of a concern that other countries are eroding traditional U.S. markets and that the Government's efforts to protect legitimate national and corporate interests seem inadequate.

Recently, trade has been placed higher in the Government's list of priorities in an effort to insure the continuing attention it deserves. The U.S. approach to trade must stress a cooperative, rather than an adversary, relationship among Government, business, labor, and consumers. The nature and extent of this relationship will have to evolve, but certainly should fall considerably short of the closely integrated planning systems used by Japan and some European countries. A program which effectively balances these constituent interests, domestically and internationally, will then be required to guide activities in this area.

The fifth and final area which I would like to discuss briefly is the need for increased interchange and improved communication between government and industry. This relationship will never be entirely harmonious. But that does not preclude the need for improvement. In the business sector there is still a marked tendency to make speeches which can only be characterized as antigovernment. The message of these remarks, which are good rhetoric before the local Lions Club or Kiwanis Club, is that everything would be just fine if government would go away and leave the "free private enterprise system" to conduct its affairs according to the rules of the market place. That position is unrealistic, does no one any good, and probably never represented an accurate portrayal of government-industry relations even 50 or 100 years ago.

Let me explain why I feel so strongly on this subject. The size of government has grown at all levels--Federal, State, and local--in response to perceived social needs, including particularly the needs

of business. The Federal Government's portion of the Gross National Product has increased in recent years from 18 percent to 22 percent. Government outlays are widely perceived by economists and businessmen as having a major stabilizing effect on the economy. In spite of the size of the deficit and growth of federal expenditures, strong pressures from all sectors of our society are pushing for increasing expenditures in defense outlays, job training, research and development, space programs, and many others.

This is not to suggest that any program is sacrosanct and not subject to the severest scrutiny at a time when inflation is rampant and federal deficits have occurred for nearly 20 years without exception. But the essential point is that many sectors of business have a stake in particular programs which are not easy to give up.

Let me cite further evidence of this close relationship. Government purchases from the private sector now represent approximately \$100 billion a year. Much of this is for military preparedness. And, while there are some companies devoted almost exclusively to defense and other government work, government procurement is interlaced with products for the commercial market to a very high degree. This means that government has a high stake in the efficiency with which government contracts are executed and business, in turn, has a high stake in maintaining its reputation for quality and fair prices of those products produced by the business sector.

The Federal Government in many other ways calls on the private sector for the performance of services directly, ranging from training



and hiring the hard-to-employe to providing consultative and research services, community development, and so on. Much of this has been at the local level such as the work of the Downtown Council in Minneapolis in financing architectural planning for public and private projects, the Chicago Central Area Committee which has worked closely with Chicago's City Planning Department in developing the Chicago 21 Plan, and the Economic Growth Council in Detroit. But industry has also worked closely with federal agencies in such important areas as energy conservation, job training, and assistance to small business. Federal outlays this year for consulting fees to business and non-profit organizations are estimated at nearly \$2-1/2 billion.

Still another facet of this interrelationship is in the form of loan guarantees and subsidies to private industry. Loan guarantees have grown from \$125 billion in 1970 to \$197.7 billion in fiscal year 1979.

The Congressional Research Service has found that there were nearly 200 guaranteed and insured loan programs. Proposals for more and expanded programs are pending in the Congress. Traditionally, loan guarantees have been used most often to assist in the purchase or renovation of residential housing through the auspices of the Department of Housing and Urban Development (and its predecessors) and the Veterans Administration.

In 1965, for example, the guaranteed loans of these two agencies accounted for 96 percent of all guaranteed loans outstanding. In 1979, however, this percentage had dropped to 76 percent. This reflects the proliferation of guaranteed loans in other areas. In recent years, loan

guarantees have been used or proposed to finance such activities as synthetic fuels development, urban mass transit programs, the Lockheed and the Chrysler Corporations, and New York City.

I cite these relationships by way of emphasizing the essential point of my remarks here today on the need to improve the channels of communication between industry and government. We are not a strictly free enterprise economy in the sense that some speechmakers would like to have us believe. We are a mixed economy, or as some would prefer it a hybrid economy, where business and public sectors must work together. What we need is better dialogue to assure that each has its proper role--industry by industry or perhaps in some cases even by community of interest. Without agreement on common objectives, the means for creating a cooperative atmosphere is made more difficult, if not impossible.

There are many avenues for communication. It has been my privilege to work closely with a number of business organizations over a period of many years. Frankly, I am not discouraged. I see much evidence in organizations such as The Conference Board, the American Management Associations, The Business Council, the Committee for Economic Development and similar organizations, in recognizing the interdependence of government and industry. We are seeing more interchange programs such as the Executive Interchange Program, the business orientation programs of the Brookings Institution, the White House Fellows Program and the Corporate Executive Development Program of the Chamber of Commerce.

A significant positive move toward greater participation by the corporate world in the development of public policy has been made by The Conference Board. A little more than four years ago, its trustees approved the initiation of a new management development program: The Congressional Assistant Program in Washington. Under this program, about a dozen mid-career, high potential executives are able to spend a year working on the staff of a Congressional Committee, following an intensive series of orientation, education and briefing sessions. Each Congressional assistant is then carefully assigned to a committee whose jurisdiction does not represent a real or even apparent conflict of interest for the sponsoring company. The participating executives learn the legislative process through "hands-on" experience. They learn the meaning of coalition building, compromise and consensus; they also learn about the complexity of our national problems and about the diversity of interests that need to be accommodated in solutions.

I have been involved with this program as Chairman of its Advisory Committee. I have been gratified to see that, after the participants return to their corporate functions--as 33 young men and women now have--they are more socially aware managers. Their decision-making style includes sensitivities to concerns that might, prior to their Washington experience, have been considered external to those of business.

While the Congressional Assistant Program will necessarily remain small in the number of participants each year, it is representative of the kind of innovative approach business can and should take to contribute to public policy making, while at the same time enriching the quality of the future leadership for business.

Programs such as these substantially improve the dialogue between government and industry; a dialogue seeking recognition of a mutual problem, a dialogue which clarifies current policy and attitudes, and a dialogue which stimulates thinking about alternatives which preserve the objectives of current policy without impeding other initiatives which would benefit the economy.

Our work in the productivity area suggests that business has an important stake in governmental policy and actions. To protect what they see as areas of vital interests to their companies, Chief Executive Officers are increasingly feeling compelled to speak out on "political" issues. This most likely will not only continue, but increase.

The question may be transformed from one dealing with the propriety of "speaking out" to one which focuses on the nature and quality of the response. If wise public policy in a number of areas is to be achieved, business leaders must make a positive contribution. This requires that business leaders resist giving in to the temptation to respond publicly in an emotional manner about government "getting off business" back."

Instead, Chief Executive Officers must develop a dialogue in non-public forums instead of public confrontation with government. In this way business responses can show an understanding of government's putative or real public policy concerns and present arguments, data, analyses, and alternatives which relate to the issue under discussion and find solutions more acceptable to both.

For its part, government must be willing to listen, and it too must refrain from emotional responses to concerns expressed by businesses.

In a recent address at Harvard University, Irving Shapiro, Chairman of E.I. du Pont de Nemours & Company, made the point very well. On the subject of the working relationship between the board rooms of America and Washington, D.C., Mr. Shapiro said:

'What is needed are some new premises about the right and proper relationship between business and government. For a long time the two have been circling around each other like gladiators in combat, blocking and parrying each other's moves. That may amuse some of the spectators, but too often it results in poor government policies and lousy business decisions. You get programs grounded in vindictiveness rather than practicality, and all the while, enormous amounts of energy are being put into adversarial politicking that could more properly be used to resolve the nation's real problems. . .

'What the nation needs from business and government is an understanding that neither one of those institutions has a monopoly on intelligence or probity, or the wisdom to prescribe all by itself for the public welfare. I know of no way to build such understanding except through education and experience.'

I urge you to intensify your efforts and sharpen your resolve to seek the new premises which Mr. Shaprio describes so well. The potential gains for both government and industry are too immense for any of us to take a less challenging path.

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