

*Competing Economies: America, Europe,  
and the Pacific Rim*

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## **In Appreciation**

### **H. JOHN HEINZ III** 1938 to 1991

The staff of the assessment on Technology, Innovation, and U.S. Trade dedicates this report to Senator John Heinz. Committed to solving the problems of American manufacturing and workers, Senator Heinz contributed to the legislative process an enthusiasm for new ideas and optimism that solutions could be found. He was a requestor of this study and one of the first in Congress to grapple with competitiveness issues. His sense of humor delighted those privileged to work with him, his sense of seriousness made him a strong champion of American manufacturing.

# Foreword

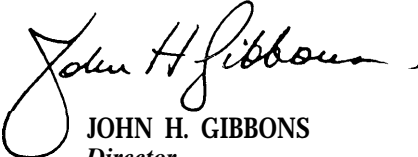
Despite macroeconomic adjustments and a lot of discussion, U.S. manufacturing is still in trouble. A test of national competitiveness is whether standards of living improve while world market share holds steady or increases. The United States is failing on both counts. Over the past two decades, the U.S. share of world imports has increased, its share of world exports has decreased, and imports have captured an increasing share of the U.S. market. At the same time, real incomes of the large majority of all Americans have declined.

Studies of specific industries also support the claim that American manufacturing is not keeping up with the competition, the Japanese in particular. While U.S. auto manufacturers have improved in productivity and quality, the Japanese still make more reliable vehicles at lower costs. Japanese computer manufacturers have made rapid progress: even in supercomputers, one of the most advanced sectors, three Japanese firms are now threatening to overtake the U.S. leaders.

Like Japan, Korea and Taiwan have mostly succeeded in promoting development of their economies in general and several advanced industries in particular. We can learn several lessons from these examples. First, the successful governments are partners with the private sector in developing particularly risky technologies and industries. Second, they combine many different policies—including, when necessary, limitations 'on foreign companies' competition in the domestic market. Third, they patiently persevere with development strategies, often for decades. Finally, they preserve important market disciplines, making sure that domestic companies competed with their most proficient rivals.

This report examines how the economic environment of the United States can be made more conducive to improving manufacturing performance. It considers how Federal institutions, in cooperation with industry, can develop competitiveness strategies for high-tech, fast growing industries; and how trade, financial, and technology policies could be combined into a strategic competitiveness policy.

This is the final report in a series of three in OTA's assessment of **Technology, Innovation, and U.S. Trade**. The first two reports, *Paying the Bill: Manufacturing and America's Trade Deficit* and *Making Things Better: Competing in Manufacturing*, concluded that there are many signs of weakness in American manufacturing technology and identified policy options to improve the ability of American manufacturers to develop and diffuse technology.



JOHN H. GIBBONS  
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NOTE: OTA appreciates and is grateful for the valuable assistance and thoughtful critiques provided by the advisory panel members. The panel does not, however, necessarily approve, disapprove, or endorse this report. OTA assumes full responsibility for the report and the accuracy of its contents.

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<sup>1</sup>Until June 1990.

<sup>2</sup>Until September 1991.