

MANAGING AMERICA

Why Is Industrial Policy So Unpopular?

Interview with Joel Rogers

Industrial policy has become an idea with no advocates—or so it seems, judging by the absence of reasonable discussion about such ideas in the public arena. In fact, there are intriguing plans for public investment being proposed by a variety of groups. We discuss one of the most ambitious with the political scientist in charge. He provides both the economic theory and the practical considerations for a federal government role in stimulating growth through investment in the private sector.

Q What is the Apollo Alliance?

A. It is an alliance among organized labor, progressive business, and environmental and social justice advocates. Its goal is sustain-

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able American energy independence within a decade, with a fair sharing of the economic benefits of doing that. The name comes from John F. Kennedy's challenge to land a man on the moon in that time. We think this is the right "moon shot" for the new millennium.

Q. Who is involved?

A. People and groups from the constituencies just named. The AFL-CIO and virtually all its major affiliate unions, plus all the unions that have recently disaffiliated. Many social justice organizations and civil rights groups and leaders, from the NAACP to ACORN. Hundreds of prominent business leaders, from individuals like Mitch Kapor to firms like Sharp Solar and Johnson Controls. Virtually all the major environmental groups, from Sierra Club to Global Green and League of Conservation Voters. That is at the national level. And then you have comparable state Apollo Alliances—with state and local leaders from those same four partners of labor, business, social justice, and the environment—in about twenty states. Of course, many of these people have been working on these issues for years, well before Apollo appeared on the scene. Apollo just stands for their working together now, on a common message of good jobs and energy independence, and a common program to achieve that.

Q What is your program?

A. We have a broad ten-point plan, which calls for \$300 billion in investment in upgrading our existing energy infrastructure; promoting greater use of renewables; achieving greater energy efficiency in transportation, industry, and buildings; research and added investment in new clean technology; smart growth and the land use and transportation supports needed for that. This money could come from the feds alone, or in combination with states and cities, and would likely be supplemented by pension savings. Since it more than pays for itself, it is a good investment.

Q The plan seems to have a lot of independent support.

A. We tried to be pretty careful in its design, and careful in its claimed impacts. And our recommendations are not at all dissimilar

to those of the recent National Commission on Energy Policy, the Energy Future Coalition, the Institute for the Analysis of Global Security, and the Union of Concerned Scientists, among many other respected groups. They also happen to be very popular with the public. Helped along by skyrocketing gas prices and an unpopular war, and a concern about global warming that is finally sinking in with the public, an overwhelming majority of Americans now think sustainable energy independence should be a top national priority. It is pretty hard to argue with a message of “Good jobs, energy independence,” which is our basic message.

Q. And why is that your message, rather than, for example, the heat from global warming?

A. Because while global warming is indeed a threat, the sorts of things needed to address it—specifically the things we’re suggesting—also portend enormous opportunity for people—gains in jobs, income, market position, national security, better trade flows, etc. And focusing on those things seemed a better way to get the diverse interests we want to move to do so. For way too long, businesses interested in the clean economy have not had much of a voice and have been drowned out politically by those profiting from the dirty economy. Environmentalists and labor have been antagonists. And underserved communities, both rural and urban communities of color—which, of course, have suffered the worst health effects of the dirty economy—have not been very comfortable with either labor or the environmental movement. Showing that all of them can do better in a clean economy is a start toward repairing this.

Q Why do you think such an effort is really needed at all? If clean energy is as good for the country as you claim, why are markets not already doing it?

A. In part they are. There is a market for renewable energy, and for clean technology, and for energy conservation. They are just not developed nearly enough, or at the scale needed. Right now there is a lot

more diffuse interest in investing in these areas than deal flow. That is basically because we do not have the law, administrative routines, infrastructure, or organization needed to take these markets to real scale. Developing those things is what Apollo is about—that, plus getting those key partners to work together and gain the political habit of working together on needed policy changes and concrete development projects showing Apollo's benefits.

Q Say more about markets and the promotion of renewables in your plan.

A. The research and technology on renewables are bringing the costs down, and the price of fossil fuels is going up fast. So in many areas—like wind, geothermal, parts of solar, and biofuels—renewables are already cost-effective. But investment is slowed by uncertainty about that market in the future, so we are trying to secure it by requiring that a rising portion of energy consumption comes from renewables. Production is slowed by that uncertainty as well, of course, but also, in an age of potentially distributed energy generation, by small producers' ignorance of options, or regulatory constraints (almost always put through by fossil-fuel-consuming utilities) on renewables' realizing their full benefits. Net metering, for example, which would permit smaller contributors to the grid to be paid for that contribution, is not the norm. And where it exists, it usually is stacked against small producers, guaranteeing that they do not get top price.

Q And what about markets and energy efficiency?

A. We waste a fantastic amount of energy. Our manufacturing could be much more energy-efficient than it is, but we have skimmed on the manufacturing modernization policies common to other nations. Our transportation system could be more efficient—through much more efficient cars, of course, but also through more attractive and available mass transit, and through less need for assisted transit. But we have

The Apollo Alliance's Ten-Point Plan for Good Jobs and Energy Independence

1 Promote Advanced Technology and Hybrid Cars: Begin today to provide incentives for converting domestic assembly lines to manufacture highly efficient cars, transitioning the fleet to American-made advanced-technology vehicles, increasing consumer choice, and strengthening the U.S. auto industry.

2 Invest in More Efficient Factories: Make innovative use of the tax code and economic development systems to promote more efficient and profitable manufacturing while saving energy through environmental retrofits, improved boiler operations, and industrial cogeneration of electricity, retaining jobs by investing in plants and workers.

3 Encourage High-Performance Building: Increase investment in construction of "green buildings" and energy-efficient homes and offices through innovative financing and incentives, improved building operations, and updated codes and standards, helping working families, businesses, and government realize substantial cost savings.

4 Increase Use of Energy-Efficient Appliances: Drive a new generation of highly efficient manufactured goods into widespread use, without driving jobs overseas, by linking higher energy standards to consumer and manufacturing incentives that increase demand for new durable goods and increase investment in U.S. factories.

5 Modernize Electrical Infrastructure: Deploy the best available technology like scrubbers to existing plants, protecting jobs and the envi-

policies that promote a car-dependent culture, and then an inefficient car-dependent one. Our buildings could be fantastically more efficient than they are now—but we tend not to build that into building codes. So we are about changing these things. Part of that is getting the costs of inefficiency fully accounted for, in decisions about transit and housing and other areas of consumption. A lot of existing markets simply do not have the prices right. There are externalities all over the place, of course, and these famous market "failures" are often abetted by giant political decisions. Our rules on land use, for example, are largely designed to get market prices wrong. They deliberately obscure the real costs of sprawl, by simply loading those onto existing communities

ronment. Research new technology to capture and sequester carbon and improve transmission for distributed renewable generation.

6 Expand Renewable Energy Development: Diversify energy sources by promoting existing technologies in solar, biomass, and wind while setting ambitious but achievable goals for increasing renewable generation and promoting state and local policy innovations that link clean energy and jobs.

7 Improve Transportation Options: Increase mobility, job access, and transportation choice by investing in effective multimodal networks, including bicycle, local bus and rail transit, regional high-speed rail, and magnetic levitation rail projects.

8 Reinvest in Smart Urban Growth: Revitalize urban centers to promote strong cities and good jobs by rebuilding and upgrading local infrastructure, including road maintenance, bridge repair, and water and wastewater systems; expanding redevelopment of idled urban “brownfield” lands; and improving metropolitan planning and governance.

9 Plan for a Hydrogen Future: Invest in long-term research and development of hydrogen fuel cell technology, and deploy the infrastructure to support hydrogen-powered cars and distributed electricity generation using stationary fuel cells, to create jobs in the industries of the future.

10 Strengthen Regulatory Protections: Encourage balanced growth and investment through regulation that ensures energy diversity and system reliability, that protects workers and the environment, that rewards consumers, and that establishes a fair framework for emerging technologies.

and not incorporating the costs of accompanying needed infrastructure into new housing prices—or, conversely, getting the lower costs of dense development, or the value of investment in residential energy efficiency, reflected in mortgage and other financing or utility bills and resale housing prices. Part of what Apollo is doing is making those costs explicit and known to economic actors by getting them into prices. Not a radical idea, right? Get the prices right.

Q Is that the principal market problem, getting the prices right?

A. Well, sure, in some sense that is always the principal problem, though it is expressed in different ways. In addition to what we just said about making costs for energy waste more visible, for example, Apollo is about also reducing the cost of practicing and promoting greater energy efficiency and use of renewables. We propose doing this in a number of ways, ranging across manufacturing modernization to promoting plug-in hybrid cars and more demanding appliance standards to “green building” construction codes. This, too, requires doing things that markets can and should be widely used in achieving, but generally cannot set up on their own. Without some help on liability rules, they do not solve principal agent problems in energy efficiency—with tenants not caring if the landlord pays their utility bills, and landlords not caring if tenants do. They do not solve free-rider problems in needed infrastructure—for example, to develop the connections for those plug-in hybrids, which need ethanol or electric plug-in stations to be accessible.

Sometimes market magic falls dead because of high transaction costs. We have not made the voluntary gains we could in individual consumption efficiency because the transaction costs to people in realizing that—figuring out where their gains are, what service they need, who can provide that service, how their performance can be ensured, etc.—are pretty high. And while the aggregate gains to consumers are considerable, the per capita gains are often relatively low, and people do not pay attention. So you have obscure, widely dispersed costs, low per-capita benefits, and enormous information problems. Apollo aims to reduce those transaction costs, to the point that people will be anxious to realize those low per-capita benefits.

And finally, of course, Apollo seeks to reduce demand for certain sorts of energy use in the first place. In theory, markets are innocent of shaping preferences. In fact, of course, they shape them all the time. Our preference for cars is a classic instance. We have 215 million cars on our roads right now, and they are grossly inefficient. We want to improve their efficiency. But we also want to reduce reliance on cars, so that we do not merely have another 200 million efficient

ones clogging our streets in another generation or two. At present, everyone wants cars because they need them to get to work, to shop, to take their kids and themselves to recreation, etc. The real thing we need to do about energy consumption through transportation is not reinvent cars, but reinvent neighborhoods—to make it easier to get to work, shop, recreate, etc., without relying on cars. And that is not something markets are going to do on their own. That is really a social choice.

Q Are you saying we all have to live in cities?

A. No, though in some sense we mostly do. About 80 percent of Americans already live in metropolitan regions, anchored in one or more interconnected cities. There is every reason to think that we could live better if they were better organized in energy consumption. And getting them better organized would be good not just for the environment, but for a lot of other things too—productivity, income, education, free time, inclusive opportunity, better race relations. Metropolitan regions are the natural pillars of the high-road economy we should be building in America—high wage (with the profits and productivity to support that), low waste (in production and consumption), democratically accountable. That is really the subject of another discussion, but in the meantime we can just say that Metro is more energy efficient than non-Metro, and making Metro more attractive is part of making America more energy efficient. We are going to be doing a lot of building in America in the next quarter century. About half the built environment that exists in America in 2030 will be built between now and then—about 200 billion square feet of new construction. That’s a giant opportunity to decide how it will be built. I think most Americans would agree that it would be nice to do that in a way that did not increase commute times!

Q So how much of Apollo is about imposing regulation on people, and how much is it about freeing markets?

A. It is about both, which is not new. All laws, even laws that explicitly are there to protect freedom, “impose” regulation on people. That is what law is. And markets require that rules be set for them to operate at all. Now, it is not news, as we have been discussing, that markets have all sorts of imperfections (concentrations of power, imperfect information, etc.) and failures (externalities, prisoner dilemmas, etc.). A decent society is one that recognizes markets as wonderful tools for some things, but not others, and recognizes their limits in solving all problems. We see instances of both sorts of market problems in the energy area. And at Apollo we think that there is a gigantic social opportunity being lost as a result. So, yes, we want to change some rules for markets. That said, we do not want to lose the power of markets as useful coordinating mechanisms for competition within those new rules. Indeed, one way to describe Apollo is to say that we are simply trying better to secure the markets for renewables and efficiency, and then mobilize the capital to reach them.

Q. So on the one hand, we’re stabilizing demand, but on the other hand, you want to create conditions and incentives and make money available to the private sector if they proceed with energy efficiency.

A. That is right. And we claim that doing that would more than pay for itself. It is a real investment, not a giveaway.

Q Let us talk about that more. What is the real economic benefit you think is going to result? Let us just go with your plan here.

A. We estimate that \$300 billion, spent on our plan, would generate about 3 million new jobs, about two-thirds of them effectively permanent. It would generate a little over \$1 trillion in additional GDP over its ten-year development. And, most important, probably, it would reduce our energy costs by better than \$300 billion annually. That would effectively free us from dependence on any single major foreign source of energy, and effectively eliminate our dependence on the Middle East. And it would do wonders for our current-account deficit, and thus our ability to manage our current dependence

on foreign lenders. Along the way, it should reestablish the American position in what is clearly going to be a gigantic world market for clean-energy technology. We used to dominate such markets, but have since lost a lot of position, and this would get some of that back. And all this is in addition to material gains to public health and the environment.

Our plan has been out there for about two years now, and nobody has seriously questioned any of these numbers. Again, they are highly convergent with a variety of similar studies. There is actually very little professional disagreement on this. The gains would be enormous. There is opposition, of course, and inertia, but not real questioning that this would make sense for the United States.

Q Who is opposing it?

A. Those you would expect, who make their money selling fossil fuels. Or those interested in clean energy without labor or community gain. But they can be defeated. The bigger problem in moving this, really, has been motivating the many, divergent potential advocates to work together. Apollo is about allying to respect one another's interests and values when it comes to potential tradeoffs among them—say, in making progress on renewables, but in ways that hurt labor; or making progress for labor, but in ways that hurt community. The great thing about Apollo is that we have gotten a growing group of people to agree that they just will not play that game any more; that we have environmentalists and labor willing to stand together; that we have high-road businesses willing to put their heads up and break with their low-road colleagues in supporting labor standards; and that we have everyone committed to making the job opportunities available to under-served communities.

Q. This creates enemies.

A. Yes, but the right ones. Here is something that has labor, environmentalists, under-served urban and rural communities, and hard-nosed but decent business people all doing something together, and that the general public thinks is great. The plan helps on an immense

global problem. It would show some U.S. leadership in solving global warming rather than making it worse. At the same time, it offers help on inequality and income decline at home. It generates a bunch of good jobs and makes sure that those who need them get a share of them. It should help rebuild some of the sectors, particularly manufacturing, that have been devastated in recent years. All this clearly describes a public good for Americans. Those who oppose that should be on the defensive.

Q **But what about political support?**

A. I think it is developing. Politicians are beginning to realize that the economics of this, and its popularity, are pretty compelling. We have seen this especially at the state and municipal level. A slew of governors and state legislatures and mayors are getting on board Apollo now. Some nine governors have formally embraced it. Legislation is moving in one way or another in more than a dozen states. This energy bill that just passed was a catastrophe, but we are hopeful on reopening it soon. We will see. Politics is always hard, and we had our share of losses as well as gains, but way more gains than losses, surely. It is definitely building.

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