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When you asked me to come to Chicago to speak about trade policy, I was deeply flattered by the invitation, especially from a group of this caliber and reputation. In preparing for this evening, I must confess some misgivings about the topic, trade policy. There is certainly no lack of opinions about trade matters. There are innumerable commentaries about the undeniable virtues of free trade -- and a veritable catalogue of slogans against unfair or protectionist practices by others or ourselves. And as a Senator from a large state with many constituents active in international trade, and with my trade committee responsibilities, I am frequently deluged with calls for trade policy answers.

Scarcely a week goes by without my receiving complaints.

-- From industry about performance requirements in Mexico and other LDCs which tie investment to local production.

-- From the services industry about European restrictions on transborder data flows.

-- From virtually everybody about Japan's quotas, standards, and testing requirements.

-- From high tech companies about outright theft of American designs and technology. Hence Apple Computer, filing complaints against 20 companies for pirating its computer technology, and Hitachi rumored to have promised IBM $300 million for patent infringements.

-- From retail goods producers about counterfeiting. Vividly calling to mind the visit of British officials to a textile plant in Taiwan and their surprise at seeing wool fabric produced with the label "made in England."

-- From farmers about the EC proposed tax on fats and oils and quota tariff on corn gluten -- two of the few products where we have made inroads into the tightly controlled European market.

My office is no exception. Every Senate office is similarly deluged.

But I have found very little that clearly articulates what our trade policy is. That is as true for the Reagan Administration as for its predecessors. It is true for us in Congress as well. I would argue that U.S. trade policy, in fact, has been and is little more than a series of responses to discrete events in the international marketplace as they occur. While trade issues are very much on the public's mind these days, responses to these problems do not by themselves make a policy.

Just as the trade laundry list my office deals with proves why we need a trade policy, at the same time it provides some clues as to why no one seems about to define one.

In part, changes in the international trading system have been so rapid that we have had to run our fastest simply to stay in the same place. These are far reaching changes. For instance:

The increasing sophistication and speed of transportation and communication has created a more readily available world market. (Who would have thought ten years ago that over half our daily supply of fresh carnations and chrysanthemums would come from Colombia, Israel, and Europe?)

The decline in the rate of domestic economic growth has made foreign markets more important, both for our producers and to others who seek to take advantage of our open market for their growth.

And the much greater awareness of barriers to trade has created domestic and international constituencies for our international standards for the conduct of commercial activities, and the use of mechanisms to enforce those standards.

In addition, we have seen the almost unanimous failure of developed countries to pursue and successfully implement adjustment policies for industries that are no longer competitive.

We have witnessed the growing importance of non-western trade players, whose standards and practices and ways of doing business are at variance with the essentially western trade systems drawn up by our European allies and ourselves in the post-war era.

And we have personal experience with the difficulty developed nations have in handling the progress that some LDCs are making in industrialization, together with the LDCs difficulties in understanding the additional responsibilities that come along with development.

Above all, where the United States is concerned there has been a profound shift: after World War II, the United States accounted for 60 percent of the free world's GNP. Today we account for less than 25 percent.

Now, what does all this mean? It means that the game is so much more complicated, with so many more players, no one knows how to play. It means that the rules of the 40's and 50's are outdated, but no one has the know-how to rewrite the rules. It means that the underlying assumption of U.S. world economic dominance is no longer true. In fact, a sweeping trade revolution is taking place. Just because it is over the horizon doesn't mean it is not chaotic. If we listen closely we may hear the latest arrangement of "The World Turned Upside Down."

While there are still a few brave souls who are trying to make coherence and sense out of this accelerating trade revolution, most politicians have given up. Most of us have retreated from this dizzying reality to either ivory tower or fortress America ideology. And when asked how pure, free, laissez-faire or protectionist domestic content legislation fits into a well ordered trade policy, we shrug our shoulders and change the subject.

And when we change the subject, instead of trade policy, we often start talking about something called industrial policy. It is tempting to dismiss the term "industrial policy" out of hand. First, it seems to beg the question of trade policy. Second, the conventional notion of it, with big brother in Washington picking winners and losers, cuts against the grain of our entrepreneurial culture. Yet I want to discuss industrial policy seriously tonight. It will be an issue in next year's Presidential campaign. Other countries actually practice it. And it may illuminate the difficulties we have in formulating a trade policy.

To begin with, a legion of industrial policy solutions have been offered, all claiming to be "the right stuff" for our economy. Looking at them politically, all of these proposals have appeal. And in all honesty, few have merit. But making that distinction is what I want to discuss with you tonight.

In its broadest sense, industrial policy can refer to virtually any government action that influences the market system. In fact, it is trade policy by a different name, because it is concerned with how we, as a nation and as an economy respond to the changes I have just listed -- sweeping changes that are taking place outside our borders yet are affecting us both directly and indirectly.

Today's industrial policy proposals fall into three general categories.

First, there is the European model -- doomed to fail because it represents a denial of the market and a denial of the adjustment process. The European approach is a maladroit combination of subsidies and protection that produces only stagnation.

Industries, like steel, that long ago lost their competitive advantage, have been kept alive by massive infusions of cash or outright nationalization.

Competition is kept out by complex minimum pricing systems, as in agriculture, or by restraint agreements, allegedly short term, but reliably renewed year after year, decade after decade.

Why do Europe's political leaders shun adjustment? Action is postponed because in the short run it means unemployment, and even statesmen know the difficulty of persuading the unemployed voter to look at the long run. After all, as Keynes said, "in the long run, we are all dead." Perhaps this is why even the conservative government of Margaret Thatcher subsidized British steel last year to the tune of one billion pounds sterling.

The tragedy of this EC policy is dramatized by one devastating statistic: Over the past decade the European community has created not even one new net job. This is stagnation with a vengeance.

The second example is the far most sophisticated case of Japan. It is a case that my Subcommittee on International Finance and Monetary Policy -- concerned as we are with export opportunities for U.S. commerce -- has given extensive study. From a narrow point of view, the Japanese system has been extraordinarily successful. Through adroit management of their currency and capital markets, through careful government guidance and the close cooperation of groups in their society that in this country are dedicated adversaries, the Japanese have created a dynamic growing economy well-positioned to take advantage of technological change.

There is much we can learn from the Japanese -- about discipline, about cooperation, about using certain tools of government.

But there is also a cost to such an industrial policy that we cannot ignore --- because it is we and others outside Japan who pay it.

The Japanese system, while certainly more successful, is as profoundly protectionist as the Europeans. In some sectors products that can compete are simply excluded -- blatantly as in agriculture, subtly as in many industrial products.

In other sectors foreign competition is excluded only until the Japanese have an equal, or superior, product. Then, when it doesn't matter anymore, the door is opened. The result is market distortion. Perhaps more clever, certainly more successful, but the person with the better idea -- with the competitive edge -- is out in the cold, unless, of course, he's Japanese.

Their weak yen gives their products a significant price advantage, which is especially evident to the United States as we experience Japan's targeting of our industries. The weak yen also protects many Japanese industries from dislocations due to imports. While this same weak yen forces them to pay more dearly for their imports of energy and other raw materials, the Japanese have concentrated on maximizing the productivity of their greatest asset: their workers.

Japanese protectionism has realized two very tangible benefits -- labor peace that translates to greater productivity, and the considerable economic and learning curve advantages of what my professors at the Harvard Business School used to call "level production," which also translated to lifetime job security significantly reduces a variety of societal demands and otherwise large governmental costs as well.

One nation practicing this system is a problem. If every nation practiced it, commerce would be paralyzed completely.

Finally, we have industrial policy as practiced in the United States. And make no mistake, in spite of Presidential protestations to the contrary -- we do have an industrial policy.

-- When the government decides not to have a refundable investment tax credit, we have an industrial policy that disadvantages older, less profitable industries.

-- When the government proposes to replace DISC with FSC we have an industrial policy that disadvantages smaller exporters.

-- When the Congress passes a clean air act we impose differential burdens on industries depending on their inherent dirtiness...

And the government has not hesitated to make trade an element of America's industrial policy.

Last spring we placed a 45 percent tariff on large motorcycles from Japan.

We have quotas on Japanese auto imports, though we call them by a nicer name.

Only a few months ago quotas and tariffs were imposed on certain specialty steel products.

Like other developed countries, we have quotas on imported textile and apparel products.

Yes, Virginia, there is an industrial policy here. And even President Reagan practices an industrial policy. Just because we don't call it industrial policy doesn't mean it isn't there. Because it is not so systematic as the European, it has done less damage; because we have not properly analyzed the costs and benefits of such a policy, it has been less successful than the Japanese.

In particular, our refusal to admit that we have an industrial policy, has prevented us from extracting the benefits of government actions for the country as a whole. To the contrary, we have allowed the benefits to flow to line the pockets of a few very narrow self-interested constituent groups.

It is a discussion of those benefits that I want to conclude with tonight, but before that, I want to add a word about the politics of industrial policy.

Clearly this will be an issue in next year's Presidential campaign.

The Democrats have climbed aboard their own industrial policy bandwagon already, but the proposals they have advanced all undermine or seek to supplant the market mechanism rather than affirm it.

A government industrial commission to study sectoral problems and pick industries of the future -- that is, select winners and losers -- is central planning. So is a redevelopment bank that would take credit allocation out of the hands of the market and put it into the hands of the government.

Of course, rejecting Democratic proposals is satisfying to a good Republican, but it does not solve the problem, and it ignores some important realities about our own economy and industrial policy experience.

First, we should seek a policy in this country that reduces government's unwarranted role in the marketplace -- above all today, that means the financial marketplace. Neither the President nor Congress should be sitting back letting deficits pile up at $200 billion a year. Anyone who thinks we can make the necessary dent in this figure without doing all three of the difficult things -- attacking entitlement programs, slowing down the defense budget and increasing revenues simply doesn't understand how bad the problem really is.

Furthermore, the high, real interest rates continue to force managers to focus on the short term, and the consequent strong dollar makes our products non-competitive overseas, especially sobering when you realize that in 1977-79, 3 out of every four jobs we created were due to exports!

Second, we should continue our efforts internationally to defend the market system by fighting dumping, subsidies, and other unfair trade practices that distort comparative advantage.

We must undertake this fight to restore international discipline to the market system because the alternative is the growth of straight forward protectionism and condemning ourselves economic stagnation -- European style.

If we do not prosecute and win the fight to restore and maintain law and order in the international trading system -- then we leave our own industries victim to these anti-competitive tactics.

And in that situation, we give our industries nowhere to go but Congress and nothing to ask for but protection.

Third, when we do resort to protection -- and it is a legitimate trade policy tool under Article XIX of the GATT -- it should be for adjustment rather than for postponing adjustment.

What we want is a process that will do some good -- for the industry in question and for the economy as a whole.

One way to insure that result is through a proposal I have made, the Industrial Revitalization Act, Senate Bill 849.

The bill is an amendment to our escape clause statutes -- sections 201, 2 and 3 of the Trade Act -- which currently allow an industry to seek protection from imports without having to claim unfair foreign competitive practices.

This section of our existing law -- which is fully consistent with Article 19 of the GATT -- permits import threatened firms to petition the U. S. government to grant something that only government can grant -- namely import relief for up to 5 years.

I believe our Section 201 escape clause is a necessary safety valve. It can permit orderly adjustment of an industry and its workers to different products or new jobs and avoid substantial industrial cataclysm.

However, the law as written works badly. What happens now is that an industry with a problem, real or threatened, comes to the government for assistance, in virtually every case blaming imports for its problems, rightly or wrongly. The government's current response is highly legalistic and focused almost exclusively on import relief as a remedy, with little analysis of what solutions are appropriate to the industry's real problems.

Under my proposal, the industry seeking help would be confronted with a challenge from the government -- the help will be provided if, and only if, the industry -- labor and management -- will help itself by developing an adjustment plan for the firms in the industry. The purpose of such a plan would address all the industry's problems, current and prospective.

Self help plan commitments might include increasing investment and modernization, additional research and product development, wage and benefit concessions by labor, management improvements and additional capitalization, and, from government, in addition to the import protection granted, appropriate anti-trust and/or regulatory relief. This is not an all inclusive list. It is only necessary to add that government relief granted would be available only so long as self-help commitments were being adhered to by all parties.

In substantial measure, the self help requirements I mentioned a moment ago were the kinds of measures that were imposed on Chrysler Corporation in 1979 through specific legislation, as a condition of receiving government financial aid. I voted against that legislation for several reasons and would do so again. But the valuable lesson is that because of the conditions imposed, the government aid to Chrysler went not where a bailout usually goes, to employees or shareholders or creditors, but in this case it was channeled into making Chrysler genuinely competitive again, and as the record shows, that plan has worked far better than anyone ever expected and Chrysler is a true success.

What I have proposed avoids both the pitfalls of central planning and the preferential treatment of individual firms. My proposition for industrial revitalization relies on the firms in an industry taking the initiative, not the government, and our approach provides for government assistance in areas when and where only government can take action, and then only as a response to an industry's self-help commitment. And finally, the demands of an industry's adjustment plan will be based, not on any government manufactured mandate, but the reality of what survival in the marketplace demands.

It is also my belief that this proposal will provide needed discipline for and among those who seek protection -- not only by assuring the realization of needed adjustment -- but also by requiring perhaps to a substantial degree -- shorter term sacrifice for the longer term benefit to the constituents of an industry that is once more competitive and fully able to stand, fight and win the battle for economic survival.

Tonight I have suggested that industrial policy is not a four letter word. In fact, its 16 letters can be used without in the least offending the basic principles of the American enterprize system.

What we need is a comprehensive strategy for industrial revitalization that includes:

First, reducing the growth of government borrowing in our financial markets.

Second, affirming the discipline of the market system internationally by fighting unfair trade practices.

And third, assuring that the same principal of market discipline governs our own domestic industries when they seek government protection for adjustment.

If anyone here finds themselves uncomfortable with calling this an industrial policy, then consider it the beginning of a trade policy.

A trade policy that recognizes the changes I have discussed with you tonight. A trade policy that helps us survive these changes in the way we know best -- in the spirit of free enterprise.

And most important, a policy that is active, not reactive: which is creative not passive.

Our situation reminds me of the priest and the Rabbi who go to a prize fight together. As the boxers are about to go to the middle of the ring, the Rabbi notices one of himself. Puzzled, he turns to the priest and says, "Father, what does that mean?" "Rabbi," says the priest "it doesn't mean a thing if you can't fight."

Tonight, I ask you to join with me and others to fight. I urge you to dedicate -- or rededicate -- yourselves to an active trade policy -- so that we can preserve not just our own economic strength, but the free market system that -- we know from experience -- will better all the peoples of the world.

Thank you.