early 1969. The new recorder was unveiled before 300 reporters at the Americana Hotel in New York on September 6, 1970. It was a smash hit. Heroic Ampex seemed once again to have used its entrepreneurial and technological virtuosity to throw a Hail Mary and beat the big guys in the last minute of play. Ampex's stock price jumped 50 percent in two days.

Then it all fell apart. Instavideo should have been manufactured in Chicago close to the R&D team, but Toshiba was willing to fund a new plant if the product was produced in a joint venture in Japan. Turning down a plan to produce it jointly with Motorola or Magnavox, Roberts said he didn't need any more U.S. competitors and opted for the Toshiba deal.

Three years later, Sony launched Betamax as the first commercial consumer VCR, and in 1976 JVC launched its VCR. Over the next 15 years, the VCR became the biggest consumer product ever. While Ampex struggled to survive on royalties from the licensing of its old patents, Sony became a $50-billion company with dominant positions that made it a formidable challenger even to the most powerful American technology companies. The VCR became a Japanese monopoly, and the United States was out of the business altogether.

Ampex was not the first U.S. company to fall victim to inappropriate U.S. trade policies and its own poor management. By 1972, the textile and steel industries were failing to compete with the Japanese and losing market share. RCA and the rest of the U.S. television industry had given up on black-and-white television, and within four years the Japanese had 50 percent of the color market, on their way to 100 percent. Radio production had long since moved to Japan, and stereo sets would soon follow.

The 1980s saw continuous trade conflict between Japan and the United States as Western manufacturers fought to survive the flood of high-quality, low-cost

DEEP BACKGROUND

The U.S. government has been co-operating with the Libyan intelligence service on the issue of terrorism and al-Qaeda. Last month the notorious Libyan intelligence chief Musa Kusa and a group of associates flew from Tripoli to Guantanamo Bay to meet with Libyan prisoners captured in Afghanistan. Most of the "enemy combatants" are expected to be "rendered" to Libyan custody soon for more intensive interrogation. The U.S. has also agreed to provide counterterrorism training to Libyan intelligence officers. The collaboration, approved at the White House level, will almost certainly be controversial if surviving family members of Libyan terrorism victims find out. Musa Kusa was the organizer behind the Libyan downing of Pan Am Flight 103 in 1988 that led to the deaths of all 259 persons on board and 11 people on the ground. The training agreement is a *quid pro quo* to reward the Libyans for their help in closing down Pakistan's A.Q. Khan nuclear trafficking network.

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A Homeland Security Customs Enforcement Department top-secret audit of contracting in Iraq is beginning to reveal a level of corruption and fraud that is crippling both reconstruction and self-defense efforts. Water and electricity supplies are at lower levels than one year ago, while the lines at gas stations have become longer. A weapons procurement of more than $5 billion for the Ministries of Defense and Interior under interim Prime Minister Iyad Allawi has reportedly completely disappeared, while a $300 million purchase of 24 military helicopters from Poland bought obsolete aircraft, many of which had already been stripped for parts. Work has never started on hundreds of millions of dollars in infrastructure-improvement contracts given to ministry cronies. Several deputy ministers who balked at signing multimillion-dollar fictitious contracts have been fired and replaced by more amenable appointees. Meanwhile, the disproportionate number of Kurds in the Defense Ministry is diverting funds and equipment to *peshmerga* militia units preparing to seize Kirkuk. On the other side of the Green Zone, the Interior Ministry's police commandos provide cover for anti-Sunni hit teams from the Iranian-supported Badr Brigade and from rogue Shi'ite radical Moqtada al-Sadr's Mehdi Army. The Potemkin-village Baghdad government is increasingly irrelevant to the future of Iraq.

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The Department of State is becoming Secretary of State Condoleezza Rice's Dreamworks on the Potomac, with oversized offices stuffed with high-paid bureaucrats churning out lots of images and celluloid action but little of substance. The highly touted Public Diplomacy office has yet to begin operations, with Karen Hughes apparently preferring to spend her time in Texas. A major reorganization is shifting resources to deal with rogue regimes, transnational terrorist groups, and weapons proliferators. A new Bureau for International Security and Nonproliferation will be formed and will include an office focused exclusively on efforts by terrorist groups to obtain weapons of mass destruction. How it will co-ordinate with the FBI, CIA, and Homeland Security, all of which are already doing the same thing, is unclear. A second new bureaucracy promoting democracy around the world will include a Deputy Assistant Secretary for Democracy.

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exports. The Big Three automakers closed one factory after another. Although the steel industry had a "trigger price" arrangement that put a floor under U.S. steel prices, the U.S. industry continued to lose market share.

Then the air went out of the Japanese bubble. Companies for which capital had essentially been free suddenly found themselves burdened with bad debt as the banking system ground to a virtual halt. The Japanese economy went from high growth in the 1980s to no growth in the 1990s, and many in America and Europe began to wonder why they had ever feared the Japanese. This sense of superiority turned to euphoria as dot-com mania spread. Then there was biotech, which U.S. industry dominated absolutely, since the U.S. government through the National Institutes of Health (NIH) spent more than the rest of the world combined. There was also an apparent resurgence of high-tech manufacturing. The Internet was hot, and everyone wanted the high-speed capacity provided by optical-fiber communication links.

Like the Japanese bubble before it, the U.S. bubble of the late '90s had to burst. To survive in the post-bubble environment, the contract manufacturers closed plants and decamped to Asia, Mexico, and Hungary in search of lower costs. Detroit's auto producers continued losing market share. The steel industry was an even sorrier story. All the integrated steel makers except U.S. Steel went belly up. Other industries simply disappeared. No one thinks much about machine tools and they don't make hot Christmas gifts. But they are the foundation of all other industries; you can't make anything without them. Yet the U.S. machine tool industry has become a shadow of its former self. At the same time, things like ball bearings and forgings, which are in nearly anything that moves, have almost ceased being made in the United States.

Through all the trade deficits, there was always one bright spot in the U.S. export statistics—aircraft. Boeing was almost always America's biggest exporter. But in 2003, Boeing orders dipped below those of the European Airbus and have stayed there. Recently Boeing announced plans to develop a new generation 787 Dreamliner. In an effort to match the EU subsidy of Airbus development costs, Boeing turned to Japan, where it partnered with Japanese aircraft-parts makers. Over 50 percent of the 777 was developed and produced in Japan.

As more and more U.S. manufacturers struggled to stay in business, there were more and more things no longer made in America. Flat-panel displays, though invented in the United States, had followed the television, VCR, and laptop computer to Asia. For many years, as the deficit in manufactured goods rose, economists told us not to worry: America still had a surplus in high-tech products. Today the U.S. high-tech trade deficit is over $30 billion and climbing, powered by a high-tech deficit with China that has gone from nothing in 1998 to $21 billion in 2003. This deterioration of trade occurred as overall manufacturing declined as a percentage of GDP to the point that the United States now barely leads Japan in total manufacturing output, despite being more than twice as large in both population and GDP.

Economic thinking in America has changed dramatically from the early days of the 20th century, when President Wilson could just order up an RCA. Of U.S. spending, industry R&D accounts for about 66 percent and government the rest. These ratios are the reverse of the 1960s. The physical sciences have been cut by 37 percent since 1970; total U.S. government spending on physical science is less than the $5 billion Intel spends annually. The result is declining U.S. performance. Last year the only American company among the top 10 U.S. patent recipients was IBM. All the rest were foreign firms. Similarly, EU scientists have topped Americans in the numbers of articles published and cited over the past several years. Until the late 1990s, U.S. publications outnumbered the rest of the world combined.

While America still has the best cards, it will have to hold on to them—and learn to play them a lot better. Maintaining a unipolar, hegemonic leadership is out of the question. But there is much America can do to mitigate the impact of wage competition, maintain the promise of opportunity at the heart of the American Dream, provide for a continually rising standard of living more equally distributed, and continue to influence the course of global affairs.

America needs to understand that its refusal to have a broad competitiveness policy is, in fact, a policy. And it gives leading U.S. CEOs no choice but to play into the strategies of other countries. This policy, according to its proponents, leaves decisions to the unseen hand of the market. Actually it leaves them to the highly visible hands of lobbyists and foreign policymakers. It is a policy that ultimately leads to impoverishment.

The grand old industrial labs like Bell Labs have been turned into mere husks. It has been 20 years since anyone at Bell Labs received a Nobel Prize. In times past, this was an annual event. If you want to see the future, you won't find it at Bell Labs anymore. You'll have to take a long plane ride to Asia or cross the Atlantic to the European Union. ■

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Bush's Iran Blind Spot

President Bush is down at his Crawford ranch, still "cautiously optimistic" about Iraq and Iran. His approval ratings plummet even as temperatures inch up. The world should leave us alone in August.

But that's never the way it happens. The first Gulf War started in August 1990 in 125-degree weather, when Saddam Hussein invaded Kuwait. The big decision for us to invade Iraq came that hot American August of 2002, when Colin Powell dramatically went to the United Nations for support. So it goes in this dreary white heat of the end of summer.

And now, with the new Iranian president's decision to restart a uranium conversion facility, there is a strange stirring in Washington. Rumors abound: "Cheney is in one of his hyper moods in Bush's absence and has missiles fixed and ready to strike at Iran's facilities."

To put it simply, the "Iran crisis" of August 2005 is really about how, with American power mired in the quicksand of Iraq, Iran has been moving to become an aggressive, and perhaps the major, power in the Middle East. The unspeakable ignorance of this administration about the history and culture of the region has finally caught up.

First, the surface story: the new president of Iran, Mahmoud Ahmadinejad, made it clear again that Iran wants to generate electricity through nuclear power, which is legal under the Nuclear Nonproliferation Treaty. But the United States, along with most of the European states, fears that Iran is really after nuclear weapons and has so deceived inspectors for years about its activities that it has forfeited its right to the innocent electricity program.

Then the dangerous subtext: while America has been so dangerously and wastefully tied down in Iraq, Iran has been moving to form the diplomatic, political, and military imprint of a kind of "Shi'ite Internationale" among the region's Shia populations. This would take in all the followers of the Shia sect of Islam, from 60 percent of Iraq to the oil-rich eastern regions of Saudi Arabia to the Iranian-backed Hezbollah guerrilla/political control of Lebanon.

Two of our most sagacious analysts of the area, Larry Johnson and Patrick Lang, both with years of experience, sent out an e-mail to their colleagues this week outlining the situation: "Iran, if things continue to go its way, finds itself on the threshold of controlling vast oil resources that stretch from the Persian Gulf to the Mediterranean ... Iran is well on its way to achieving de facto control of significant portions of Iraq. Teheran is backing Shia cleric Grand Ayatollah Ali al-Sistani (a Persian, not an Arab) and the radical Muqtada al-Sadr. The Iranians are funneling money and training to supporters inside Iraq. The Iraqi Shia control the political process and comprise the majority of the security forces ... Iran is in a dominant position in Lebanon. The murder earlier this year of Lebanese Prime Minister Rafik Hariri has left Lebanon under the de facto military guard of Hezbollah. Iran remains the main benefactor, supporter and adviser to Hezbollah ..."

The odd thing is that Iran, not Iraq, was always the primary target of the neocon group that so distorted American policy after 9/11, in part because Iran was seen as the primary enemy of Israel; but Iraq seemed easier to them. Thus, the Iranians were able to simply stand back while their archenemy, Saddam, fell at no cost to themselves. Should it be any surprise that they should move, as ruthlessly as always, to achieve their goals? And now, with their exalted idea of themselves as the holiest of Shia, their goals have been perfectly complemented by the "Great Satan." (That's us.)

Iran is no unified state. There are special ministries that, often secretively, back revolutionary movements like Hezbollah; there are special military units, such as the Revolutionary Guards, the "Quds" (Jerusalem) forces and other militias. The new president is himself a kind of mystery; but we do know that he, too, represents a turn away from the liberalizing that was slowly progressing in Iran—surely another reaction to the American occupation next door.

Michael Mazarr, professor at the U.S. National War College, wrote in *The New Republic*, "the only long-term solution to the problem of Iranian nuclear aspirations is integration into the world economy and a gradual return to reform." But the American overextension into the Middle East has made this, at least for now, impossible.

The administration was warned by many of these analysts before 2003 of every one of these historic alignments in the Middle East and of every rather obvious danger. The administration very deliberately chose not to see them then, and there is little evidence that it sees them now. ■

From the column: "Iran Took Advantage of Time in the Shadows to Build Power"