

Say hello to industrial policy, but never goodbye

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Introduction

United States has not always run its economy on strictly market-based criteria. In agriculture, textiles steel, etc the guiding hand of the government has always been present.

Were there any lingering doubts about what will guide US international economic policy under the Biden administration, Jake Sullivan would have put them to rest.

The US National Security Advisor told the Brookings Institution in April that the Biden administration will be driven by domestic considerations.

“That is part of what we have called a foreign policy for the middle class. The first step is laying a new foundation at home—with a modern American industrial strategy,” he said.¹

This was no real surprise given the legislation championed by President Joe Biden from the moment he came to the White House. Moreover, the United States has embraced industrial policy almost since its inception. In agriculture, maritime, textiles and clothing, steel, cars, semiconductors and many other sectors, the guiding hand of the government has always been present, offering financial assistance and protection from competitors. Justification for this assistance has taken many forms, including national security, the protection of jobs, regional development, and the national economic interest.

There are compelling reasons for the shift the administration is undertaking. But the track record of US industrial policy is mediocre at best and too often such policies have brought more harm than good.

Populist elements in the Biden administration harbor deep skepticism about markets and their ability to deliver for the middle class. Mr. Sullivan said policymakers in the United States were too often captured by the rationale “that markets always allocate capital productively and efficiently...And the postulate that deep trade liberalization would help America export goods, not jobs and capacity, was a promise made but not kept.”²

It is true that markets have not always provided all the answers. Market-based mechanisms have done little, for instance, to offset the negative externalities of environmental degradation. Leaving the development of basic infrastructure entirely to the private sector has left roads, bridges, and ports in a sorry state.

Yet, the suggestion that the United States has run its economy on strictly market-based criteria is fantasy. And just as markets have their shortcomings, the government’s track record in picking winners and losers has been less than stellar.

Once governments go down the rabbit hole of industrial policy, they often find it difficult to claw their way out again. Companies that have drawn deeply from the government trough rarely volunteer to surrender this patronage. That a cohort of Biden administration progressives is actively seeking a taxpayer- and consumer-funded crutch to prop up specific sectors is extraordinary – particularly when such programs often line the pockets of the already rich.

Pushing the needle in one direction or the other leads to unintended consequences that bring their own set of risks. These include souring of relations

with other countries, adverse environmental repercussions, threats to health and safety, corruption, and inflation. Often the impact goes unnoticed, at least in the beginning. But over time – and many industrial policies have lasted for decades – a slow slide into a more inefficient, less productive state is inexorable.

Washington is a town which develops ecosystems devoted to the preservation of corporate subsidies, government contracts, and protection from competition. Although the CHIPS and Science Act, the Inflation Reduction Act (IRA), and the Infrastructure Act are only in their embryonic stages, this dynamic is already at play.

Industrial policy also tends to get very complicated, very quickly. Just look at the contortions into which the administration has twisted itself in determining who qualifies for tax breaks under the IRA.

Any assessment of the administration's policy must weigh the gains to the specific sectors receiving government subsidies and protection, versus the cost to the taxpayer and the consumer. The evaluation must take into consideration how US allies respond to the policy, whether the government can minimize the inevitable distortions and inefficiencies that arise, and whether these policy byproducts become a long-term burden on the economy.



Just as markets have their shortcomings, the government track record in picking winners and losers has been less than stellar.

The case for industrial policy

Market forces have not enabled the country to address the mounting costs of carbon emissions. The carrots and the sticks provided in the Inflation Reduction Act are needed to achieve emissions targets.

Unlike the Trump administration, the Biden administration has taken an activist role in confronting problems such as climate change, domestic political divisions, and dealing with China. The president understands that solving the problems the country faces will be far easier if done in cooperation with US allies. Washington has heard, from governments in Europe, Asia, Africa, and Latin America, that severing relations with China is not in the cards for them. Mr. Sullivan and other White House officials have dialed back the anti-China rhetoric, at least a bit.

Moreover, the Biden administration has sought to chip away at some of the longstanding trade irritants with the European Union on steel, aluminum, and aircraft. In 2021, Washington and Brussels agreed to a ceasefire in the long-running dispute over illegal subsidies given to Airbus and Boeing, which had resulted in the application of tariffs on roughly US\$11.5 billion of each other's exports.³ A year later, the two sides forged a temporary agreement to roll back duties applied as part of a damaging dispute over steel and aluminum imports.

Addressing the US political divide

President Biden understands the importance of allies, but for him, there is something bigger at play than good relations with key partners. The presidency of Donald Trump was seen by many Democrats as a near-death experience for US relations with its long-established allies, environmental policy, and even American democracy. One of President Biden's most important goals was to arrest this free fall and, on this front, he has made progress.

Given Mr. Biden's background and long record of support for trade unions, it is no surprise that he has sought to bring back to the Democratic fold the blue-collar workers who had become a pillar of the Trump movement. Providing jobs for workers without a college degree offers a pathway to curbing some of the extreme positions taken by some Trump supporters on issues like immigration, race relations, and crime.

Seen through this prism, the merits of the 2021 US\$1.2 trillion infrastructure law are clear. In theory, improving the dilapidated state of American infrastructure was a bipartisan objective, but Republicans have been unable to get their act together to pass a meaningful bill. Not only that, but they also did all they could to derail the 2021 bill and President Obama's US\$800 billion effort to push through an infrastructural overhaul in 2009. Spending money to shore up roads, ports, bridges, airports, and power and communications networks is an investment in the future. It will improve the country's competitiveness and the roughly 5,000 projects covered by the act could create or support millions of jobs.

According to a study from Georgetown University the infrastructure plan will create or save 15 million jobs over a decade, bringing a boost to the blue-collar economy by raising the share of infrastructure related jobs in the United States to 14% from 11%. According to Georgetown, 8 million jobs would be created for workers with a high school degree or less and 4.8 million jobs for workers with a high school diploma but no college degree.⁴

The White House believes “total public capital and private investment from President Biden’s agenda will amount to some US\$3.5 trillion over the next decade.”⁵

Climate change

At its core, the complex Inflation Reduction Act is about bending the nation’s industrial arc in the direction of a greener economy. Through investments in technology contained in the bill, the country might take a greener tack and possibly forestall a pending climate catastrophe. Critics of globalization, including Mr. Sullivan and US Trade Representative Katherine Tai, are correct when they say that market forces have not enabled the country to address the mounting costs of carbon emissions.

Left to their own devices carmakers and steel producers would never have undertaken the huge expense in time and money needed to adopt new and greener production techniques. President Biden would like to cut US greenhouse gas emissions by 50% by 2030 and ensure that 100% of US power is generated through clean production by 2035. The carrots and the sticks provided in the IRA are steps in the right direction to reach those targets.⁶

The electric vehicle industry will be aided by the expansion of the national network of charging stations, adding 500,000 stations across the country.⁷ Production of renewable energy infrastructure will be buttressed through tax credits for energy, sustainable aviation fuel, clear electricity, and the production of clean hydrogen. Such credits will also be extended to producers of solar, wind, nuclear, and carbon capture technologies. Serious incentives are on the table to incentivize the production of 950 million additional solar panels, 120,000 new wind turbines, and 2,300 grid-scale battery plants by 2030.⁸



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Dealing with China

The administration's recognition that China is a competitor and rival is prudent. It is also good politics. It is no small irony that China, the world's largest trading economy and by far the biggest beneficiary of globalization, is the principal catalyst driving the world into distinct trading blocks. It is also the source of the anti-trade hysteria that has gripped Washington for nearly a decade. A constructive partnership with China is desirable, even essential, but actions by the Chinese government have made this far more difficult.

Since Xi Jinping became president in 2013, Beijing has shaken off Deng Xiaoping's foreign policy dictum in which China would "hide its strength, bide its time and never take the lead." Chinese aggression in the South China Sea, along the Sino-Indian border, and in the Taiwan Strait has put other countries on notice. China has raised military spending fivefold since 2001 to US\$270 billion in 2021. China spends more on defense than the next 13 Indo-Pacific economies put together.⁹

Through its Belt and Road Initiative, China has extended its geoeconomic influence to every continent. Its sometimes less-than-benevolent terms of investment have strained repayment capacity among heavily indebted developing countries and operated outside the rules of other multilateral lenders of development aid. The brutal repression of pleas to preserve democratic structures promised to Hong Kong has further undermined relations with the West.

Donald Trump shifted US policy towards China to a much more hostile tack and under Joe Biden, this trajectory has continued. Enhancing US technological innovation and ensuring access to essential supplies like high quality semiconductors are central to the administration's approach to China.

The CHIPS and Science Act provides US\$52.7 billion in funding for semiconductor manufacturing, research and development, and workforce development.

Few US trade partners gripe about the CHIPS Act itself. They understand how damaging the chip shortages have been – the Biden administration estimates that this shortage led to US\$240 billion in lost economic activity in the United States.¹⁰

Other countries are following suit. The EU agreed in November to provide 43 billion euros while Japan will spend roughly US\$22 billion. Incentives to attract semiconductor producers are being offered in all corners of the world. China will have 22 new chip plants by 2025, Taiwan will have 21, the United States 14, Europe 10, and Japan seven.¹¹

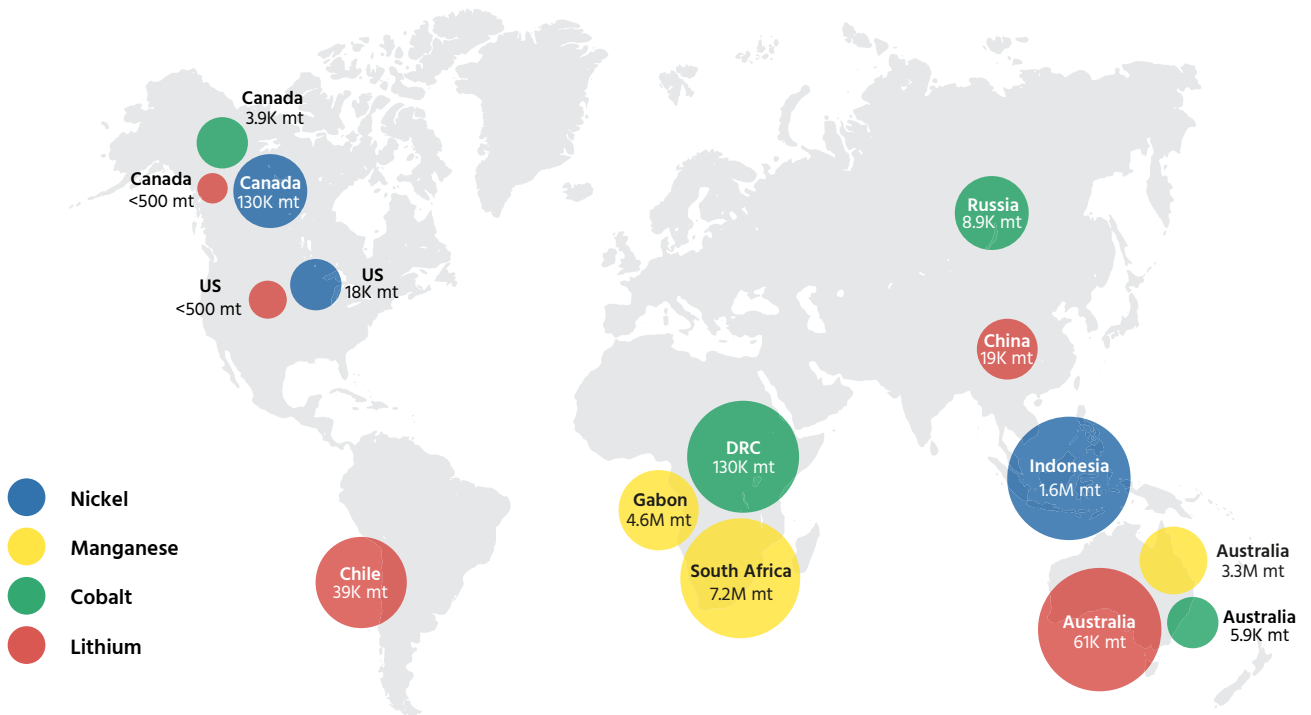
Internal contradictions

The environmental objective of the Inflation Reduction Act is laudable, but it is a hydra bent on the reshoring of production to the United States or its allies. To encourage consumers to buy electric vehicles, for example, the Biden administration offers a tax credit of US\$7,500 per car. But in order to offer these credits carmakers must follow strict guidelines pertaining to where the car is produced, where the battery which powers the vehicle is made and where the minerals and other inputs for the batteries are obtained.

The tax credits are only available to individuals earning less than US\$225,000 per year. The criteria determining which producers can offer these discounts are mind-boggling complex. Final assembly of the vehicle must take place in North America. At least 50% of the components in the electric battery must be made in North America and 40% of the minerals used to produce these batteries must also come from North America.¹²

The domestic content for these minerals will grow each year until it reaches 80% by 2027 and 100% by 2029. There is one small problem with this formulation, however: the lithium, cobalt, nickel, and manganese needed to produce these batteries are not found in sufficient quantities in North America. The largest

Figure 1 – Producers of minerals required for electric vehicle batteries



Data source: Statista and Investing News Network ; Map by: Daniel Chan and Emerson Liu
Note: mt = metric tons

To avail of the incentives under the Inflation Reduction Act, car makers must follow strict guidelines pertaining to sourcing of inputs and manufacturing location. Is the central objective of the Inflation Reduction Act producing cleaner cars or is it friendshoring?

producers of nickel, manganese, cobalt, and lithium are Indonesia, South Africa, the Democratic Republic of the Congo, and Australia, respectively.

The only way to meet the demand, which figures to explode in the coming years, is to import from elsewhere. This can be problematic when US trade policy has multiple objectives including ensuring resilient supply chains which do not include Russia or China. To meet this need, the legislation mandates that supplying countries must be allies – defined as those countries with which the United States has a trade agreement. Canada, a big producer of essential minerals qualifies because it is part of the US-Mexico-Canada Agreement. Obviously, Mexico qualifies as well.

In addition to Mexico and Canada, the US has free trade deals with 18 other countries including mineral producing Australia and Chile.¹³ Rather unhelpfully though the United States has no such agreements with the European Union, the fourth largest US trade partner or Japan, which ranks fifth.

World Trade Organization rules on regional trade agreements say that to qualify as a free trade agreement the deal should encompass “essentially all” trade. But these days Washington pays scant regard to its international trade obligations. Japan has an agreement with the US mutually assuring critical mineral supply chains, and Tokyo does not want to get shut out of the US market over a technicality. A similar deal with the EU is in the works and is expected to be signed soon. Perhaps a similar cord would one day be inked with Britain, whose leaders are supremely irked not to be included under the IRA and CHIPS and Science Act umbrellas. South Korea even has a real free trade agreement with the United States, but electric cars made there are not eligible to receive the favored tax treatment.

Is the central objective of the Inflation Reduction Act producing cleaner cars or is it friendshoring? The law says that minerals and other battery components cannot be sourced from “foreign entities of concern” which includes Russia, China, North Korea, and Iran. But does this mean that producers cannot import from China the high-quality lithium needed to make batteries in the United States? If so, producing in the United States will be extremely difficult.

Foreign ally uncertainty also extends to the CHIPS and Science Act and its “guardrails” designed to promote reshoring. Rigid export controls were implemented by the Biden administration on technologies used in the production of high-end chips. The guardrails in the CHIPS Act further limit the investment opportunities in China for any company receiving subsidies under the Act.

With friends like these

Aside from the complexity and inefficiency inherent with industrial policy, legislation driven by domestic considerations tends to infuriate even US allies and trading partners. The CHIPS and Science Act, the IRA, and the infrastructure act each contains elements that benefit US producers at the expense of foreign competitors.

In October, the EU Commission identified nine specific IRA provisions which it claims violate WTO subsidies rules. French President Emmanuel Macron’s December state visit to Washington was marked by his startlingly frank criticism of the IRA. This blowback has pushed President Biden to search for a way to balance domestic priorities with the interests of key allies. It remains a work in progress.

A deal with the EU along the lines of the Japan strategic minerals deal is imminent. But how precisely these agreements would be implemented remains to be seen.

The ever more rigid local content requirements contained in the latest US government procurement regulations have been another source of irritation. Although “Buy America” restrictions have been on the books for decades, the requirements have been tightened recently. In March 2022, the Federal Acquisition Regulatory Council raised the threshold for domestic content to qualify as Made in America from 55% to 60% in 2022 and up to 75% by 2029.

Beyond the many domestic content requirements, allied noses are also out of joint thanks to the United States strongarming Asian and European companies to control exports of high-end chips and the sophisticated production equipment to China. Many European and Asian companies have grown dependent on the Chinese market – and not only for semiconductors and equipment. They do not appreciate Washington’s heavy-handed tactics. Unlike the unified approach to sanctions on Russia for its war on Ukraine, coordination on export controls to China has been patchy.

Other countries might be forgiven for wondering what’s in this for them. After all, they have seen various versions of this movie before when subjected to US industrial policy in agriculture, in steel, in textiles, in automobiles, and in maritime. They have not always liked what they’ve seen.



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The guest that never leaves

The US automobile industry is far weaker today than it was before the government intervention and bailouts.

One does not need to look far to see how well intended industrial policies can go awry, bringing unintended and highly unfortunate consequences, damaging to the overall economy and in some cases to the health and well-being of Americans. The United States has employed industrial policies across a range of industries for generations. Although they were launched decades, even centuries, ago, most of these policies remain with us today.

Automobiles

The oil shocks of 1973 and 1979 shifted consumer preferences to smaller, more fuel-efficient models which Detroit could not produce as competitively as Japanese producers. Car imports to the United States grew fivefold in the 1970s and by 1980 imports had captured 22% of the US car market.

The United Autoworkers of America and Ford Motor Company sought protection from imports. When Ronald Reagan assumed the presidency in 1981, he sought to persuade the Japanese to “voluntarily” curb the flow of imports to the United States.

Japanese cars continued to be popular with US consumers and it didn't take long for the Japanese could see that US industrial policy might be extended into perpetuity. Big Japanese carmakers decided to move production to the United States.

Although US car manufacturers took some positive steps during this time, it was mostly a case of too little too late. Rather than investing more of their short run profits to match the Japanese on productivity, quality, and styling, auto executives purchased financial, aircraft, and computer companies. Producers in Japan and elsewhere continued to make better cars and grab ever larger shares of the market.

The Bush and Obama administrations spent US\$80 billion to stabilize the U.S. automotive industry through investments in General Motors and Chrysler, and other programs to support automotive suppliers and guarantee warranties. President Obama agreed to extend a bailout to Chrysler.¹⁴

Were the government interventions a success? Detroit's carmakers failed to adjust to the market realities and failed to improve the quality of their products. By any measure, the industry is far weaker today than it was before the government stepped in to save them.

Maritime

When the Uruguay Round of trade talks concluded in 1994, the United States succeeded in exempting its shipping industry entirely from the terms of that agreement, much to the chagrin of its largest trading partners. The Merchant Marine Act of 1920 mandates that all domestic US shipping routes be served by shipping lines which are registered in the United States, and use only US crews and US-built ships.

According to the Organisation for Economic Co-operation and Development, the Jones Act costs the US economy somewhere between –up to US\$135 billion per year in higher costs and lost opportunities.¹⁵

Despite its enormous costs, the Jones Act has not accomplished what its authors intended. Because the cost of some ships covered by the statute is high, owners hang onto them for longer than is wise or safe. Normally, vessels are deemed seaworthy for 20 years, but in the United States today, 75% of vessels are more than 20 years and two-thirds are more than 30 years old.¹⁶

The longstanding argument in support of the Jones Act has been national security. But US ships are so costly and in such a sorry state that the US military has had to rely on foreign flag carriers in its most important military operations.

US producers enjoy the shield of industrial policy in the textile industry. The average US tariff on clothing is 11.6% and their impact is disproportionate and regressive.

Textiles

The textile industry benefited from voluntary restraint agreements put in place after World War II when textile producers in the United States and Europe came under pressure from imports, particularly from Asia.

The complex web of quotas led to a myriad of distortions common with quantitative restrictions. Producers in many countries sought to evade the quotas by transshipping through third countries.

For consumers in importing countries, the quotas meant higher prices. According to a study from the Massachusetts Institute of Technology, prices for Chinese exports to the United States that had been under quota immediately fell by 38% when the quotas were lifted in 2005.¹⁷



While the relationship between Washington and big steel has been uneasy at times, steel companies have relied on presidents past and present to protect their interests.

Despite the Uruguay Round lifting the quota restrictions, US producers still enjoy the shield of industrial policy. The average US tariff on clothing is 11.6%.¹⁸

The impact of these tariffs is disproportionate and regressive. The poor spend a larger share of their income on clothing so higher duties hit them harder. Moreover, women face higher costs than men. The average tariff on women's underwear is 15.5%, compared with 11.5% for men's undergarments.¹⁹

What was good in terms of government intervention for the steel industry was unfortunate for the many other industries that consume steel.

Steel

Few industries in the United States have benefitted more from government support and direction than the steel industry. Since the 19th century steel has been seen as critical for economic and military security of the nation and its representatives have always wielded great power in Washington.

While the relationship between Washington and big steel has been uneasy at times, steel companies have relied on presidents past and present to protect their interests.

Presidents from Nixon to Reagan helped limit steel imports in response to domestic industry. The steel industry often charges that foreign producers are subsidized by their governments and dumping products in the US.

Restraining imports led to higher prices of steel and further undermined the competitiveness of the US auto industry. But the restrictions had little impact on employment as the industry continued to shed jobs. Employment in the US steel industry production peaked in 1974 at 609,000 people. By 2013 employment in the sector had fallen to 102,000.²⁰

Despite decades of government protection, it was never enough. In 2002, President George W. Bush imposed a range of tariffs from 8%-30% on various imported steel products. They remained in place for two years and were lifted when Washington lost a dispute settlement case at the WTO.

What was good for the steel industry was unfortunate for the many other industries that consume steel. Economists Joseph Francois and Laura Baughman estimated that the Bush tariffs decreased employment by between 50,000 and 197,000 workers in other industries.²¹

In 2018, President Donald Trump imposed tariffs of 25% on \$16 billion of steel imports and 10% on \$9 billion of aluminum imports. It's unclear if the policies helped to revive a perpetually struggling industry.

In 2017 prior to the application of the Trump tariffs, raw steel production was 82 million tons. Under the cover of heavy protection, output in 2022 was unchanged at 82 million tons. Capacity utilization at steel mills rose only marginally to 74.7% in 2022 from 73.5% in 2017. Steel mill jobs actually declined to 75,000 in 2022 from 80,600 in 2017 while foundry jobs slumped to 50,000 from 65,000 in 2017.²²

Agriculture

Agriculture is a big business in the United States. Gross cash farm income (GCFI) which includes sales of agriculture products and receipts from government farm programs came to US\$618.0 billion in 2022.²³

The biggest farms, yielding the most produce, get the biggest chunk of the government support. Between 1995 and 2014, 50 billionaires received government handouts in the US.

Direct payments from the government to farmers are expected to reach US\$10.2 billion this year.²⁴

Government support is largely based on the size of the farm and the output produced by the farmer. The biggest farms, yielding the most produce, get the biggest chunk of the government support.

According to the Environmental Working Group (EWG), a non-government research organization which has been investigating farm subsidies since 2001, US federal farm subsidies came to US\$478 billion from 1995 to 2021. According to EWG's Farm Subsidy Database the bulk of these subsidies go to the country's largest and richest farms.

EWG estimates that between 1995 and 2014, 50 billionaires received government handouts including Microsoft co-founder Paul Allen, Charles Schwab of the financial firm that bears his name and members of the Walton, Bechtel, Pritzker, and Rockefeller families. The subsidies also disproportionately favor industries with heavier carbon footprint.

Through a combination of subsidies, import restrictions, loans, and pricing policies the United States has created a highly distortive agriculture market which has cost taxpayers billions of dollars, raised prices for consumers, and angered trading partners.

Cotton

Government support for cotton farmers – and farmers more generally – became more sophisticated and secure with the passage in 1933 of the vast array of programs under the New Deal. As with most government subsidy programs the initial idea was to help people when they were laid low, in this case cotton farmers devastated by the Great Depression.



Government support is largely based on the size of the farm and its output. The biggest and richest farms, yielding the most produce, get the biggest chunk of the government support.

Sugar producers benefit from government support which shields them from foreign competition and create a vastly distorted market. Consumers in the US pay twice as much for sugar as the world price.

But as is often the way with these things, the programs soon ballooned out of control. While the annual level of support to the cotton industry fluctuates – due to movement in global prices for cotton, the Federal Government disbursed \$40.10 billion in cotton subsidies between 1995-2020, about half the value of cotton production. This support has taken many forms including subsidized loans, price supports, subsidized crop insurance and direct payments. It is the large farmers and corporations who are the biggest beneficiaries. These producers, which made up only 10% of total subsidy recipients, received 82% of the subsidies Washington distributed.

When US cotton was not competitive enough on world markets, the Department of Agriculture (USDA) offered domestic mills and cotton exporters financial incentives to buy American.²⁵

As the global system of textile trade quotas was unwound and production shifted, largely to Asia, US cotton exports grew swiftly. Exports topped 17.6 million bales in 2005 and accounted for 75% of sales. The US share of global trade rose from an average of 25% in 1990s to almost 40% by the mid-2000s and about 35% today.²⁶

The United States become the world's third largest producer of cotton – behind India and China and just ahead of Brazil.²⁷

Sugar

Like cotton growers, sugar producers benefit from an array of complex and puzzling mechanisms which shield them from foreign competition and create a vastly distorted market. Duties were first applied to sugar imports in 1789 and have been in place almost without interruption ever since.

Thanks to the US sugar program, consumers have historically paid almost twice as much for sugar as the world price.

Market protections include quotas, high tariffs and “domestic marketing allotments” which literally determine who is permitted to sell sugar in the United States. The industry further benefits from price supports which are handled in a typically byzantine manner through which loans are extended to processors which must pay sugar cane and sugar beet farmers prices which reflect the value of the loans they receive from USDA.

The higher cost of sugar puts companies at a profound disadvantage. According to Commerce, this has forced many domestic producers to move their production to Canada or Mexico where sugar prices are far lower.

Conclusion

The specifics of the industrial policies in various sectors differ but they all involve complex mechanisms and lead to market distortions and anomalies.

Industrial policy in the United States is as old as the country itself. Through the years, virtually every sector of the economy has received some form of government support or protection. As the Biden administration takes the United States into the most state-centric set of economic policies since those of Franklin Roosevelt, what lessons can be learned from the past?

The problems encountering the United States – climate change, political polarization, technological disruption and a clash of superpowers – are both different and comparable to those encountered by what previous presidents. So, while reviewing the past makes sense, the response to these problems must be tailored to take into account the particular circumstances of today.

Some of these programs of the past sprang from a desire to help industries that had fallen on hard times through no fault of their own, like the maritime industry following World War I, or cotton and sugar after the Great Depression. Other programs were devised in a more ad hoc manner following other calamities including oil shocks, pandemics, and financial crises which adversely impacted the automobile industry. Some programs were designed purely to keep imports at bay as was the case for steel and textiles.

The specifics of the policies differ but they all share some important similarities. For one thing all of them involve complex mechanisms that can be difficult to decipher, and which can cloak anomalies and distortions like billionaires receiving



Despite our inability to determine the impact of the “what if”, it is far-fetched to conclude that any of these policies can be called a success as any judgement suffers from the lack of the counterfactual.

subsidies from the government. All have proven costly for consumers or taxpayers or in some cases – agriculture, automobiles – both. All have succeeded as well in angering US allies.

Any judgement on how successful previous policies have been suffers from the lack of the counterfactual. Have the tens of billions of dollars spent on an automobile industry that still staggers about in a zombie-like torpor been well spent? Were those sums a fair price for avoiding the collapse of an entire industry as seemed possible, even probable, in 2009?

Despite our inability to determine the impact of the “what if”, it is far-fetched in the extreme to conclude that any of these policies can be called a success. At best, these policies *might* have been second worst to the widespread failure of the industry they were designed to save. In every instance, what started out as a means of getting an industry back onto its feet morphed into something no one could have intended at the outset: a kind of permanent corporate welfare plan which benefits a few at the expense of the many.

If the IRA, the CHIPS and Science Act, and the Infrastructure Act are to succeed, things will have to be done differently than in the past. All the previous industrial policy programs are still in place in one form or another, and there is very little reason to assume they will disappear any time soon. Politics takes precedent over economic logic or common sense. Corporations know very well how to play the Washington lobbying game and how to protect their acquired interests. The sheer complexity of the IRA and the CHIPS and Science Act leave great scope for not only inefficiency but corruption. Absent effective oversight of these programs, for example, a dangerous spiral will ensue and we are likely to have them in place for years to come.

In fact, measuring success will itself be a challenge. If the aim of the IRA is to halt climate change and pare back the effects it has already wrought, it may be some time before we know if it worked.

For the United States to successfully address the vexing issues before it, it will need to have its allies on side. Joe Biden understands this, so do Janet Yellen, Antony Blinken, and Jake Sullivan. This is at least a start, because as the implementation of these complex laws gets under way, some things are bound to go wrong. Having friends who can point this out tactfully while offering solutions to the next generation of problems will be a tremendous asset.

In the meantime, it is worth remembering that while market forces are not the be all and end all, neither are governments.

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Keith M. Rockwell is a Senior Research Fellow at the Hinrich Foundation. Prior to his retirement in June 2022, Keith served as a Director at the World Trade Organization (WTO) and spokesperson for the organization for more than 25 years. He also is Global Fellow at the Wilson Center.

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Endnotes

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