Industrial Policy in a New Global Paradigm

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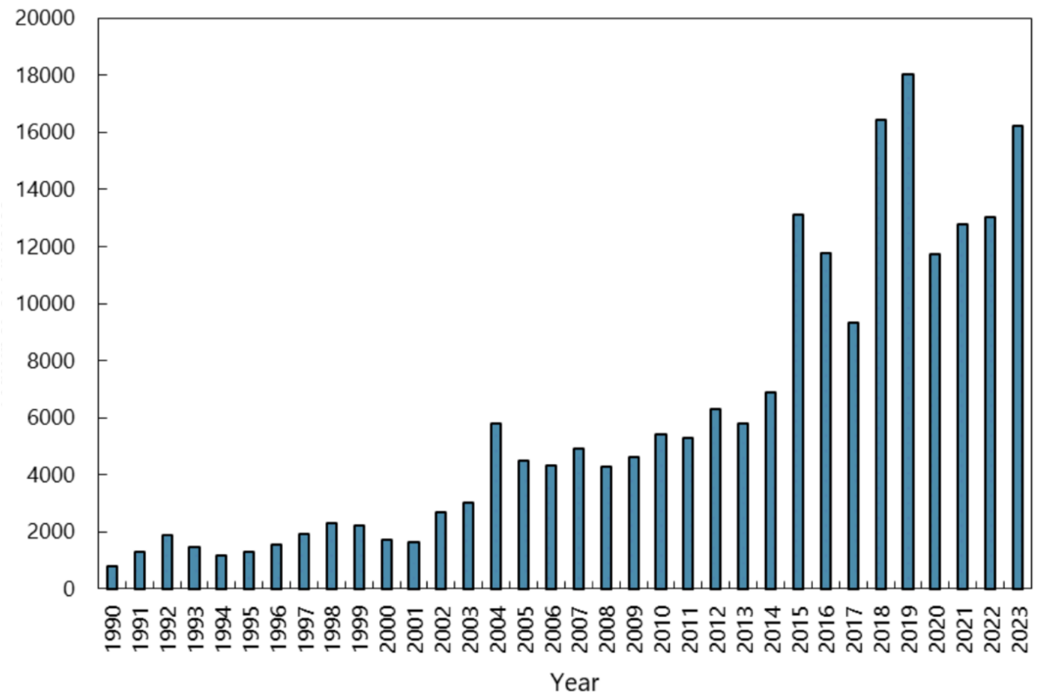
Industrial policy has expanded globally in the 2020s

Mentions of Industrial Policy in Business Press

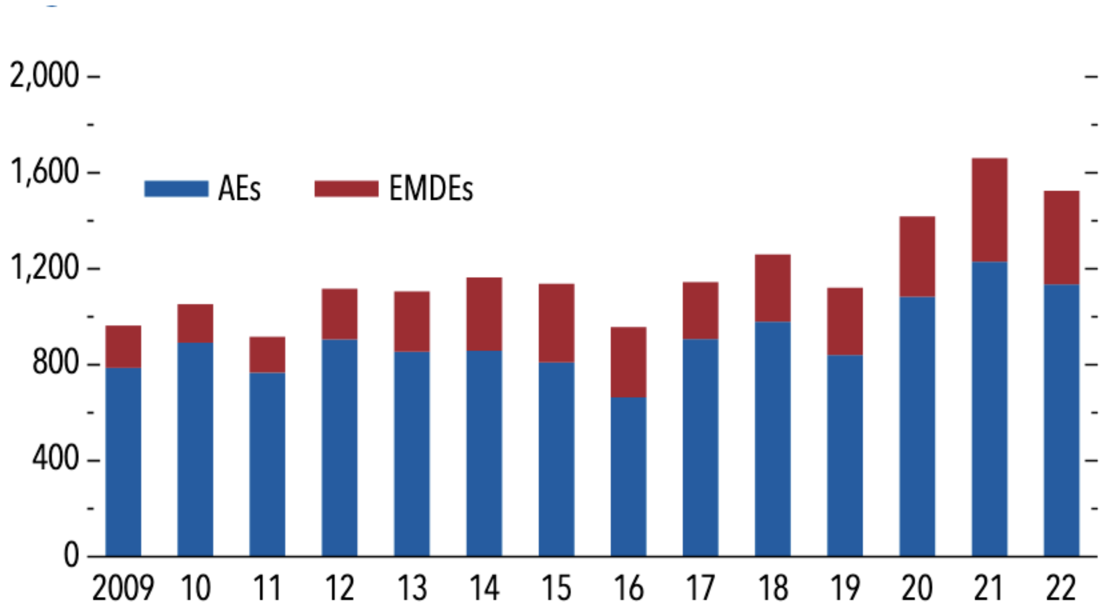
Number of articles



Source: Evenett, Jakubik, Martín, and Ruta (2024); authors' calculations based on data from Factiva.

Global Evolution of Industrial Policy

Number of new measures



Source: International Monetary Fund (2025); AEs refers to advanced economies and EMDEs refers to emerging market and developing economies).

Notable recent US industrial policy

The Washington Post

A new era of industrial policy kicks off with signing of the Chips Act

The legislation provides $52 billion to companies building computer chip factories and research facilities in the United States, an intervention conservatives long opposed as picking winners and losers

Updated August 9, 2022 More than **3 years ago**

8 min 47

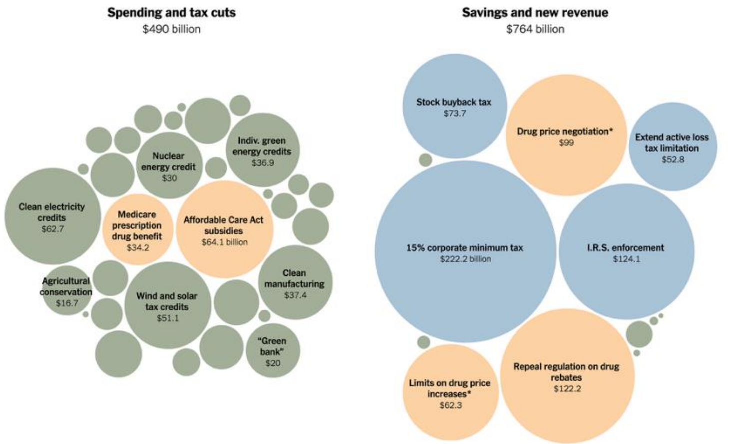
President Biden signs the Chips and Science Act into law alongside major proponents including Sen. Maria Cantwell (D-Wash.), Sen. Todd C. Young (R-Ind.) and Senate Majority Leader Charles E. Schumer (D-N.Y.). (Demetrius Freeman/The Washington Post)

The New York Times

A Detailed Picture of What's in the Democrats' Climate and Health Bill

By Francesca Paris, Alicia Parlapiano, Margot Sanger-Katz and Eve Washington Updated August 16, 2022

Democrats in Congress have had to scale back their legislative ambitions since last year, but the Inflation Reduction Act, passed by the House on Friday and signed by President Joseph R. Biden Jr. on Tuesday, is still a substantial piece of legislation that will make big investments in the environment and health care, and increase taxes on some key groups.



FINANCIAL TIMES

US to take 10% stake in troubled chipmaker Intel

Equity investment of $8.9bn marks the Trump administration's latest corporate intervention

Intel said the US government would purchase the shares at $20.47 each, below Friday's closing price of $24.80 © Hannibal Hanschke/EPA/Shutterstock

US industrial policy shows both change and continuity

Reducing exposure to global supply disruptions => much more attention since COVID

Advancing the green transition => pushed by the previous Administration but has been rejected by the current one

Enhancing national security => consistent priority across recent administrations

Increasing economic growth and job opportunities => enduring objective

Three points

1. Improving policies apart from industrial policy should be the starting point for policymakers
2. Industrial policy opens a Pandora’s Box of complications
3. Responding to the rise of China is a special case

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Traditional policies are the most effective way to boost economic growth and job opportunities

Supporting research and development

Improving K-12 education and training and apprenticeship programs

Facilitating immigration of high-skilled workers

Maintaining a competitive business tax code

Keeping a stable and balanced regulatory environment and global trading system

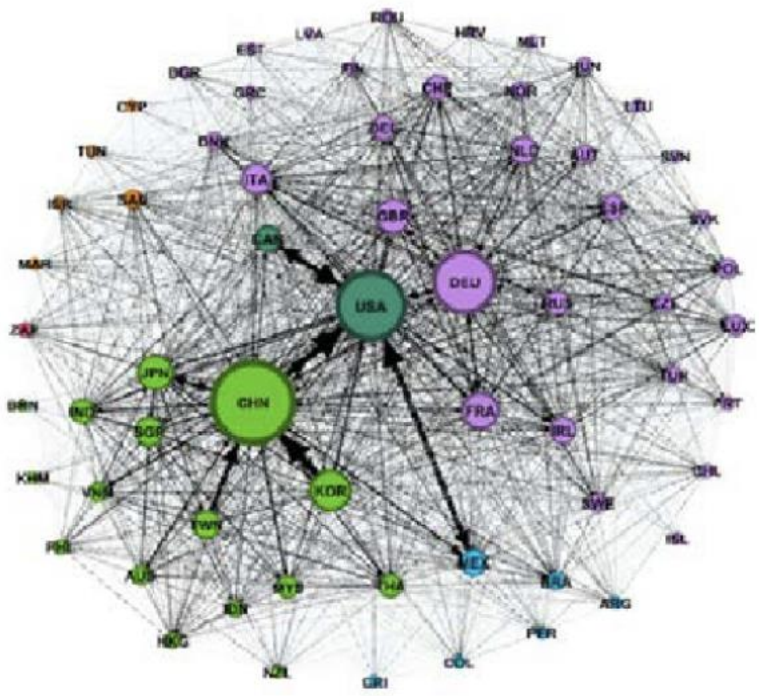
Operating federal, state, and local governments effectively

Reducing exposure to supply disruptions is best achieved through a stable global trading environment and allies

The complexity of modern production means that reducing exposure to global supply disruptions through industrial policy would be very difficult:

- Robust supply chains depend on understanding suppliers of key materials, their suppliers, and so on down the chain

- Doing this for many goods would amount to central economic planning—and thus isn't practical



Screenshot from [Cigna, Gunnella, and Quaglietti](#) (2022); nodes show countries' shares of global value-chain trade and link thickness indicates value-added flows between them

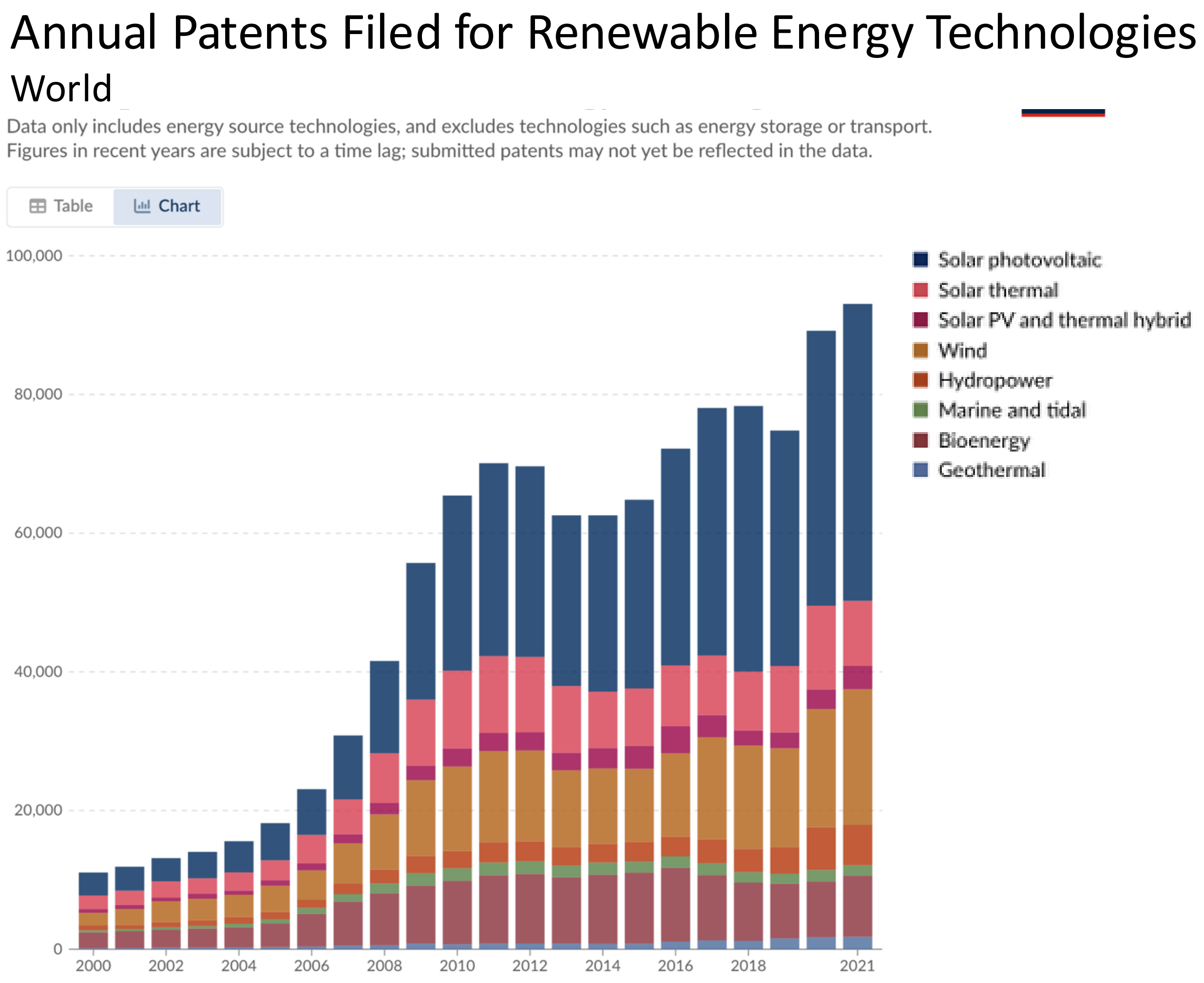
Broader policy changes are essential for a successful green transition

Support for clean-energy R&D

Streamlining permitting for energy production and transmission

Expansion of nuclear power

Mechanisms that effectively price carbon (if politically possible)



Screenshot from [Our World in Data]

Three topics

1. Improving policies apart from industrial policy should be the starting point for policymakers

2. **Industrial policy opens a Pandora's Box of complications**

3. Responding to the rise of China is a special case

Unless industrial policy is crafted very effectively, it can generate substantial inefficiency

Information failures: Governments may misjudge which sectors merit support

Fiscal strain: Subsidies often become expensive and hard to unwind

Loss of competitive pressure: Protection dulls incentives to innovate or cut costs

Cross-border spillovers: Trade measures can provoke retaliation or copycat policies

Industrial policy risks becoming effective when it tries to do everything

Everything bagels are, of course, the best bagels. But that is because they add just enough to the bagel and no more … And one problem liberals are facing …is that they often add too much.

Ezra Klein

Photo: Politikaner, Wikimedia Commons, CC BY-SA 3.0

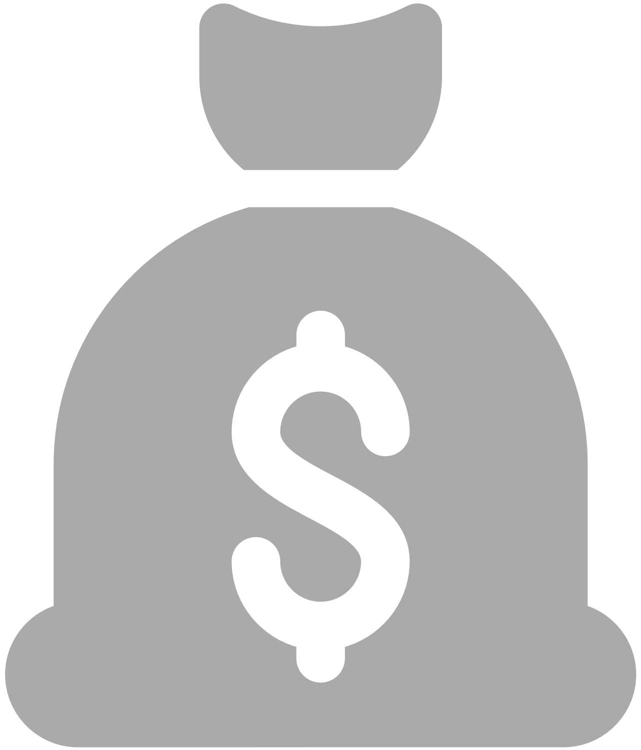
For example, critics of the CHIPS Act and the Inflation Reduction Act have argued that these initiatives try to serve too many objectives at once (too much on the bagel)

Each law seeks simultaneously to create “good” jobs, accelerate the green transition, strengthen supply chains, and advance national security—an “everything bagel” strategy that risks blurring priorities and weakening effectiveness

Industrial policy presents a host of political challenges

The selectivity of government treatment inherent to industrial policy:

- Increases the incentive to attempt political capture and the consequences of being successful
- Encourages lobbying
- Can facilitate corruption
- Increases the risk of companies becoming “too important to fail”



Three points

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3. **Responding to the rise of China is a special case**

Why China is a special case

China is an economic power rivaling the United States

- The average standard of living remains well below that in advanced economies, but …
- Dominant supplier in key global markets (e.g., rare earths, solar panels, heparin)
- Deep integration across many supply chains

China is a geopolitical and military adversary

- Economic leverage can be used for strategic or coercive purposes

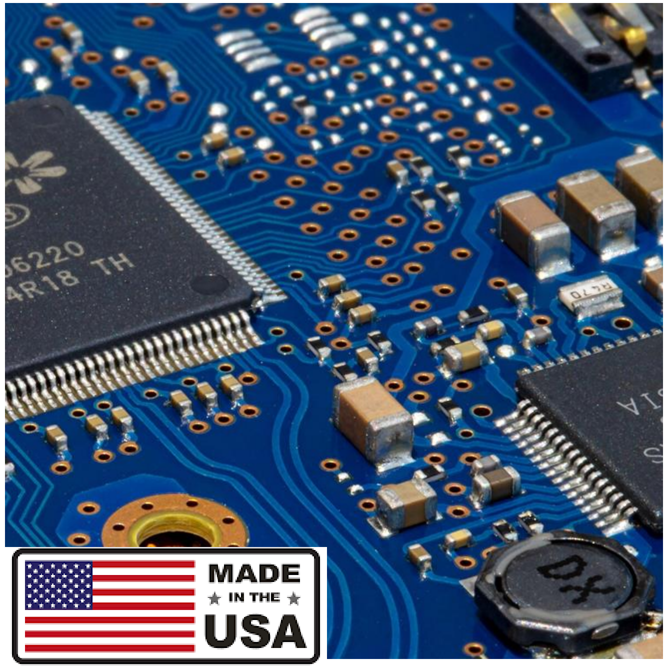
This is a combination the United States has not faced before

Both dimensions argue for policy that is deliberate, coordinated, and long-term in focus

Some industrial policy is warranted for China-related vulnerabilities

Industrial policy can be justified to:

- Build supply chains for key defense items domestically or with long-trusted allies
- Support domestic or allied capacity in strategic sectors, such as semiconductors
- *But the range of goods implicated needs to be narrow or this would essentially become central planning*



Complementary policies are also needed to strengthen national security by promoting innovation—such as R&D and high-skilled immigration

Photo: Daniel Garcia, Wikimedia Commons, CC BY-SA 2.0, overlay added