

## Dear Republicans: Industrial Policy Doesn't Work. It's a Gift to the Swamp | Opinion

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Former President Trump's promise to "drain the Swamp" in Washington, D.C., and stick up for the American worker was a rhetorical piece of genius that helped him secure his shocking victory in 2016. But Trump's rise has also gone beyond the rhetoric and prompted an ideological sea change on the American Right, with many Republicans turning away from classic free-market principles and embracing a muscular, populist vision of industrial policy.

This is a grave mistake, because Trumpian industrial policies actually feed the "swamp"—and usually don't work out to the public's benefit.

What is industrial policy, exactly? Simply put, it's when the government, often citing lofty and noble goals like protecting American industries and jobs, picks winners and losers in the market, typically by offering certain companies or industries subsidies, tax breaks, or other benefits. It can also take the form of "protectionist" measures that help favored sectors or companies by hurting their overseas competitors.

We also have to be clear about what industrial policy isn't. As the Cato Institute's Scott Lincicome explains, advocates of industrial policy often try to take undue credit for the invention of everything from the iPhone to the Internet. Yet just because there was some form of government involvement, like funding basic research, doesn't mean these successes truly involved industrial policy, because the government wasn't involved in micromanaging specific commercial outcomes in pursuit of a narrow national goal.

We do have many actual examples of modern industrial policy in practice, yet it's no wonder that industrial policy advocates don't want to highlight these—because it typically hasn't worked out well.

For example, there's always Trump's (in)famous attempt to bolster U.S. steel manufacturing with tariffs, a.k.a. taxes on goods entering the country, on foreign steel. This is a classic example of industrial policy in action, as it was meant to engineer a specific outcome, increased U.S. steel manufacturing, in the name of a national goal, reliable steel supply to ensure national security. (Never mind that, according to *Foreign Affairs*, before Trump's tariffs, three-fourths of imported steel came from friendly countries we can rely on, like Canada, Japan, and South Korea.)

The result?

While Trump's tariffs reportedly protected about 1,000 jobs in US steel manufacturing, they destroyed 75,000 other manufacturing jobs due to increased costs for all the manufacturers who rely on steel. Nice!

All in all, it's estimated that Trump's steel tariffs cost Americans roughly \$900,000 for every single job they "protected" in steel manufacturing.

It's hard to imagine a better example of how well-intentioned industrial policy often backfires and ends up a net negative for the American public. Thankfully, we don't have to use our imagination: President Biden has also provided us with a similarly high-profile example of industrial policy working out for special interests while screwing Americans over more broadly.

Just consider the misleadingly named "Inflation Reduction Act." (Even Senator Bernie Sanders admitted it wouldn't impact inflation at all). In reality, the bill was an industrial policy bonanza, with hundreds of pages of subsidies, tax credits, and carveouts for Democrats' favored industries—especially the electric vehicle industry.

It's an expensive hand-out. Goldman Sachs estimates that the legislation will cost taxpayers \$1.2 trillion, a shocking three times more than initially expected. This is great news for executives in the EV sector, who responded to the subsidies being passed by immediately jacking up their prices by thousands of dollars. But it will cost U.S. taxpayers tremendously, while having no detectable impact on global climate change. And whatever jobs it boosts in EV manufacturing will only come at the expense of the jobs in whatever sector that money would have otherwise flowed to.

Another great example of modern industrial policy in action!

Then there's the bipartisan "CHIPS Act," supported by some congressional Republicans and signed into law by President Biden. The bill invests billions of taxpayer dollars into boosting U.S. manufacturing of semiconductors, a vital material in the global supply chain. This classic example of industrial policy—targeting a very real problem—has already turned into such a messy boondoggle that Oren Cass, a prominent conservative supporter of industrial policy, is now describing it as "an embarrassment for the broader effort to re-establish the American tradition of industrial policy."

There's a reason that industrial policy rarely ever seems to work out well in our modern economy. Government officials are not all-knowing, and the modern economy is a dynamic, incredibly complex system that's well beyond the ability of any individual or group of people to fully understand. So it's not surprising that when bureaucrats huddled in D.C. try to micromanage industries and pick winners and losers, it rarely works out well.

And even that is naively assuming that they're actually making these decisions with the public's best interest in mind. In reality, politicians are motivated by self-interest just like anyone else, and trusting them to dole out trillions in subsidies is a recipe for corruption and graft—it's the best gift "the Swamp" ever received.

None of this is to say that government officials are powerless. They can and should enact standardized reforms that promote economic activity across the board. It's when they start to micromanage specific, complex industries and try to engineer particular outcomes that things tend to go haywire.

Nor is this to argue that the free market's results, while almost always preferable to central planning, are always rosy for all. It is undeniably true that as a free economy progresses, jobs in some sectors will disappear and some workers will be left behind, even if overall prosperity moves in a positive direction.

But rather than try to halt progress and enshrine the status quo, lawmakers should focus on helping American workers adapt to changing times, by funding job retraining programs or subsidizing relocations to parts of the country where new jobs are emerging or their old jobs are still in demand.

It's entirely understandable that Americans are dissatisfied with the current state of affairs. But as alluring as politicians' promises may seem, giving D.C. more money and power to pursue a renewed industrial policy will only make things worse.