

The Times-Gazette

Industrial policy: Right or wrong

By Bill Sims

August 17, 2022

What is “industrial policy”? The simple answer is: When a national government subsidizes certain industries that it believes are essential to the nation’s economic future and by reckoning, its national security. But that answer can have negative or positive implications, depending on who you ask.

Why the negative or positive implications? The simple answer again is, it depends on whether you believe government should have a role in making such policies or if picking critical industries for a nation’s economic successes should be left up to markets.

Leading political and economic opponents to government involvement in the private sector are libertarians. One of the best known think tanks that supports research related to libertarianism is the CATO Institute. Libertarians believe in maximizing political freedoms and individualism, but minimizing government’s role in society writ large. Those with libertarian inclinations have traditionally been opposed to industrial policy because “picking winners” in the economic scheme of things is the business of business, not government. In a free-market, capitalistic country like the United States, political tradition has been to limit government’s role in driving economic activity.

The other side of the economic coin argues that we live in a different commercial and competitive millennium than the 19th and 20th centuries. One glaring difference is the globalization of manufacturing and commerce. Another globally related trend has been the adoption of “just-in-time” inventory strategies, making for increased interdependence among both domestic and international commercial operations.

One of the greatest economic transformations in the last 50 years happened in the People’s Republic of China (PRC). During these 50 years, China metamorphosed from a lumbering Third World basket case poisoned by Mao Zedong thought into a global economic and military power, rivaling the USA and possibly surpassing the USA in terms of gross domestic product by the end of this decade. How did they do it? The Chinese Communist Party, despite its so-called Marxist principles, embraced the tenets of a market economy and private enterprise. Its economy boomed and foreign direct investment boomed because companies from around the world saw the potential of selling to a population of 1.4 billion people (over four times the size of the US) with popular purchasing power rising.

So, is industrial policy right or wrong? Well, “here’s the deal,” as one politician is fond of saying. China may have free-market aspirations but one thing that has really affected its economic success is centralized planning, aka, industrial policy. China’s Central Committee and Politburo decide where and when to double down on economic openings and prospects, and they have proven to be effective opportunists. One advantage of centralized planning is that a country can turn on a dime to take advantage of opportunities often at the expense of other national competitors.

When you find yourself competing with an economic powerhouse that wants to dominate the global marketplace with high-tech industries, artificial intelligence, electric cars, or semiconductors, it begins to make sense for a government like the United States to up its game by subsidizing industries that can stand up to and compete with these challenges.

A great example is right here in Ohio where Governor DeWine’s administration and Jobs Ohio did a fabulous job in offering incentives that led to Intel deciding to commit an initial \$20 billion to building a semiconductor chip plant in New Albany. The only thing holding up the development of the plant were the incentives baked into the CHIPS ACT which finally passed Congress after many thought it was DOA. After much partisanship wrangling, it turned out to be a great bipartisan accomplishment. For Pat Gelsinger, CEO of Intel, moving on this plant means moving fast in a pivotal moment for the U.S. economy and national security. “Please don’t dither in Congress over petty partisanship... I’m not a delay guy.”

For Ohio, the initial \$20 billion may eventually lead to \$100 billion before the whole thing is done.

These plants are incredibly expensive. While the U.S. has been a leading architect in the design of the chips, we have become almost totally dependent on other countries, especially Taiwan, for the production of these semiconductors. China wants in. This is a great example of what our country needs to do when the reality is that semiconductors are the building blocks of a digital age.

But there’s also alternative energies and artificial intelligence. China has for now eclipsed the U.S. on the production of solar panels and wind turbines. When it comes to competition, whether it’s sports, markets or pandemics, the key to success is anticipation... the Wayne Gretsky prophecy... it’s not where the puck is now, it’s anticipating where it’s going to be and getting there before your competitor. I’m convinced that in this day and age, we need to go from good to great as opportunistic anticipators and if this means support from our national government to compete then so be it because honestly, I think all of us want to win.

Realpolitik is defined in the American Heritage Dictionary as: “Politics based on practical rather than moral or ideological considerations.” While it is often associated with former Secretary of State Henry Kissinger as a methodology in foreign policy, I see it as having equally important ramifications in international economics. While I have very good libertarian friends, the general principle or orthodoxy that government must stay out of business puts dogmatic blinders on the practical realities of challenges we face with China, especially in trade, high-tech and artificial intelligence, and as we segue from fossil fuels to renewables to thwart the existential threats of climate change.

As we plan and prepare for this century's economic challenges with China, elements of industrial policy must be in our toolbox. Our mantra must be driven by what's realistic, practical and actual, not by rigid orthodoxies that restrain our ability to compete. Adding to that, as my football coach Sam Rutigliano used to say about the middle of the play, "If you don't keep moving, you get stepped on."