

## **Industrial policy dreams perpetually deferred**

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Richard Reinsch: Welcome to Liberty Law Talk. Today we're with Scott Lincicome senior fellow in economic studies at the Cato Institute about industrial policy, its prospects, what it means, and what its consequences would be if we had something like that fully implemented. Scott, as I mentioned is at the Cato Institute in economic studies, he writes on international and domestic economic issues, including trade subsidies, industrial policy, global supply chains, all the things that are in the news, we're discussing. Scott, glad to have you on the program.

Scott Lincicome: Thanks for having me. Good to be here.

Richard Reinsch: Thinking about industrial policy and I've read a lot of your work on it. What is industrial policy?

Scott Lincicome: Great question, because it's funny to start there, but it's really necessary because so often you hear, especially from industrial policy advocates it is anything and everything. It is what gave us the iPhone and COVID vaccines and everything in between, you name it. If it is a technological marvel of any sort, you will hear that it was a result of industrial policy. The reality is as you and surprisingly, listeners might find out is far different. And that's because if you look back at the history of industrial policy and we have a lot of it, in not just the United States, but around the world.

If you go back to the Hamiltonian report on manufacturers, surely there was some industrial policy baked into that. The question is whether that actually first of all, was fully implemented. The history shows that it really wasn't. But second, is, was that really effective? Did it actually achieve outcomes that were better than what the market would've done and that's where I think, especially in that Hamiltonian high tariff, industrial intervention era of the 19th century, you really see that at least the scholarship on the issue says that, you know what, it really didn't work as well as people will claim.

Experts tend to coalesce around a few really essential defining characteristics of what is industrial policy. First, you need a national strategy or a plan of some sort. This isn't just government funding for basic research, for example, where, you give a bunch of smart people

grants to do some research, and they might stumble upon some amazing thing while they're doing their work at some university. You need a national strategy and a plan to achieve some sort of objective. The next thing is you need to then pursue into that strategy.

You're going to have a targeted microeconomic meaning company, industry, firm, specific stuff. Microeconomic policies, things like tariffs or subsidies or localization mandates or the rest. And those policies are going to be intended to achieve specific market beating commercial outcomes. Making that really simple, this isn't like building a fighter jet, and it's not just simply to try to achieve some objective that the market could achieve. It's essentially saying, look, no, the market has failed, and in order to achieve our national strategy, we have to intervene in the market. We have to beat the market.

Because there is apparently this market failure. And then the last part is there has to be an element of nationalism in all of this. This is not just simply establishing a prize and saying anybody who can deliver an amazing technology to us gets the prize. We don't care where you're from. We don't care how you do it. This is far different. This is really the government saying, we want this on national soil. We want it to use American workers, American manufacturing. That's the only way you can qualify for any of these goodies that we just talked about.

Richard Reinsch: As I think about things that I hear when I'm out there regarding industrial policy something that frequently gets trotted out and seems to be received with nods by a lot of people in the room. What is said is the internet is the outcome of industrial policy. COVID vaccine strategy, Operation Warp Speed proves industrial policy. Is there ever a need for industrial policy? And is there ever an argument for it? And I think, so another thing you hear is Alexander Hamilton in the famous report are manufacturers. America itself from our founding, some would say is rooted in industrial policy, is comfortable with it.

Scott Lincicome: Yeah. And I think that, look, if you go back to Hamiltonian report on manufacturers, surely there was some industrial policy baked into that. The question is whether that actually first of all, was fully implemented. The history shows that it really wasn't. But second, is, was that really effective? Did it actually achieve outcomes that were better than what the market would've done and that's where I think, especially in that Hamiltonian high tariff, industrial intervention era of the 19th century, you really see that at least the scholarship on the issue says that, you know what, it really didn't work as well as people will claim.

That in fact, it was things like rapid demographic expansion and a lot of other factors that drove America's rise in the late 19th century. It wasn't really about industrial policy or trade protectionism. Now, the internet one is a great example of what I was just talking about. If you actually look in the history of the United States government's involvement in the internet, what you see is that very little of those necessary conditions I just said really apply because certainly there was government involvement.

You look back at the creation of certain parts of the network and what became potentially modern email and all these things, but you see that a lot of these things were discovered by happenstance. You had a government contractor working on a different project and needed to

develop a certain amount of technology or needed a messaging system through the department of defense, they needed to contact each other. The government wasn't saying, "We want the internet." They just, again, these researchers are very smart people on a contract and they stumbled upon it.

That's not industrial strategy. That's simply, there's just a government touching the thing. You see that a lot in what we hear are industrial policy victories are oftentimes things that, again, people just stumbled upon and the COVID vaccines, I think are another really great example of where industrial policy gets credited for things that really weren't a lot of industrial policy. Starting with mRNA research. Well, that was first of all, a basic research grant. The researchers were not trying to achieve some amazing market beating vaccine.

But beyond that, you actually see that there's been some great work looking back at the scientist Katalin Kariko, Drew Weissman who actually weren't primarily being funded for mRNA research. In fact, his grant was on a totally different subject and they really came into their own when they left the government research apparatus and moved to Moderna and BioNTech the German company that brought it forth. And then with respect to the COVID vaccines themselves, one of the great things about the vaccines is that they really show us what a private market alternative would be.

And that's very rare, because when the government gets involved in something, it's going to tend to crowd out alternatives and then aha if there's a success, then that was clearly an industrial policy success. But here, we actually had a really excellent contrast because the Pfizer-BioNTech vaccine was almost entirely a private endeavor. The only thing the US government did, well, two things. First, is they eased regulatory constraints.

Richard Reinsch: That was nice of them.

Scott Lincicome: Exactly. Allowing vaccine production to go in tandem with testing and all that stuff. Typically, they do those things sequentially. They were allowed to do this all at once, and then the other thing is they said, "We'll pay you for finished doses." Now, this is essentially a prize format. If you look into the contract of the Pfizer vaccine with the United States government, there's an entire section that says that the United States government will have no control over the supply chain. Will have no control over the manufacturing process.

We will essentially just bring you on a vaccine and if it gets by the FDA, then you're going to pay us. That is, again, there's very little micromanagement and in fact, Pfizer used its own resources, its own manufacturing plant, BioNTech used its own research as well. The government only came in really at the end of the process. People talk about BioNTech got money from the German government, but again, that was after the vaccine had been created.

And if Pfizer's executives before Operation Warp Speed ever even existed were predicting, so in say April of 2020, they were predicting have finished doses by December like they did. And so, you contrast that with a much more government centric approach. And here, in fact, we just had headlines today about Emergent BioSolutions. Emergent BioSolutions has been involved with

the US government for about a decade or so. They were a plant in Maryland that was specifically funded by the US government to produce vaccines in time of a pandemic, produce medication.

Well, Emergent has produced almost none, almost no... At least in no significant commercial quantities vaccines and the government just canceled their contract because they've been having tons of problems in the manufacturing facilities in Maryland and J&J was contract the government arranged for Johnson & Johnson to work with Emergent and early on in the pandemic, you heard from a lot of industrial policy advocates that Emergent, that was it.

Clearly, this is going to be the success. And now of course they're quietly... All of those comments have quietly disappeared. And when you actually look into the history of Emergent, you see that it's connections with the government, it's federal contracting and the rest were a problem that they spent a lot of money on lobbying. They spent a lot of money on winning government contracts, but they weren't so great when it came to actually producing results. And again, in the vaccines, we see that.

You have a much more market-oriented vaccine in the Pfizer-BioNTech vaccine, and then you have a much more government-oriented approach in the J&J Emergent. And I think that that provides us really with this incredible contrast that we don't normally have. And so, I think that's the type of counterfactual we really need to apply to industrial policy supposed successes. Because look, the government's not going to go all for infinity. There's going to be some successes in there.

And the question though, is were those successes really something that beat the market, that the market could not achieve in the absence of government intervention? [And again, I think the vaccines give us a really excellent teachable moment in that regard.

Richard Reinsch: Yeah. And on that point, thinking about the internet, it is the case that government researchers and DARPA stumble onto the technology, create a form of it. But it's corporations in a market that develop a technology and make it a commercial product that changed the way we all live, basically.

Scott Lincicome: Exactly. And that goes for the iPhone too. There's certainly parts of the iPhone. If you hang out on the internet enough and you are into industrial policy-

Richard Reinsch: And I do.

Scott Lincicome: ...you're going to run into this meme or picture or whatever that essentially says everything in the iPhone is coming from the government. The government invented the iPhone, right?

Richard Reinsch: Yeah.

Scott Lincicome: When you dig into that, unfortunately, some researchers have, I wrote about it in my paper, what you see is that certainly, there were some government... A couple guys on a government grant who developed the, I think it was the LCD screen, but they weren't even trying

to develop that technology. They were working on a totally different project, but they needed this tech for what they were doing.

But more than that, you look at Taiwan's economic makeup overall and you see that they are heavily, heavily leveraged in one industry, semiconductors. That's great when you're talking about semiconductors, but when you're talking about biotech and let's use pharmaceuticals, for example, not so much, they're laggards. And so, even where you admit there are successes, do you want the government to have that much... Do you want to have an economy that is that unbalanced, that the chances of having bigger problems for not having a more diverse economy are really rather substantial?

They stumbled upon it. But the bigger deal is that it took private, took apple and Steve jobs to package all of these different technologies into the iPhone and to develop a manufacturing strategy that involved a lot of globalization and offshoring and all of those nasty things that industrial policy folks, don't like to achieve a product that would be a success in the commercial market and thus, get consumers to buy it. And that led to all the wonderful upgrades and adaptations and really, the amazing technology that well, I have in my hand right now.

And it's that type of direction or whatever that is really rare in the industrial policy successes, you hear so much about. It's much more, there are a few things that people stumble upon but then it's the private actors that create the modern technological miracles.

Richard Reinsch: There's two directions I want to go in. I want to talk about, because I think that brings up just the idea of the knowledge problem, inherent and industrial policy planning, and also I want to talk about other nations in particular Asian nations that we frequently hear about our successes in this regard, but one, just thinking about Steve Jobs' example and bringing together all these technologies.

That's about specialized knowledge that he in some great way was able to combine along with the people around him and all of the record they had in their industry of thinking about what could actually work and what could we actually build upon and creating this new product. And that gets the famous essay by Friedrich Hayek it was 1948, The Problem of Knowledge and what would a government bureaucrat have to know? When would they have to know it? How would they apply it? What incentive would they have to get it right?

And of course, and you've been saying this versus, and then compared to what? And is really the thing that they're trying to do to achieve a political objective on behalf of an ideology or on behalf of a turf battle inside their agency or on behalf of Congress, congressional representative supporting them. All of those things factor in and it just seems like the comparisons ultimately [00:15:00] mean that a government official getting it right is really spectacular.

Scott Lincicome: Yeah. And like you were saying, having the specialized knowledge needed to achieve these things is something that requires not only a ton of input from all sorts of different actors. It also requires a willingness and ability to change course quite quickly to admit failure and to then adapt accordingly. Steve Jobs has had some failures too. It wasn't just all iPhones, iPads and the rest.

Richard Reinsch: Yeah. Well, he was fired at one time. Right? And he came back.

Scott Lincicome: Right. And so, it's the willingness to fail that is I think quite often missing from, and again, that's part of the knowledge process and something that government actors are rarely willing to do. It took Emergent BioSolutions, going back to that company, it took years of failure before the government finally pulled the plug. And thank goodness we had alternative vaccines, because just imagine, if our entire vaccine production was on that model and reliant on the millions of doses that have never left that factory. Think of the damage that that could cause.

And so, that gets, I think to another big problem with industrial policy, which is the political influence. That even things that might seem good on paper, even things that might say, "Well, no. We're going to actually use market input. We're going to rely on the private sector and all of that." Very, very often politics intervenes and you have all the public choice issues that arise from that. And that something that looks good on paper after it gets through the sausage baking in Washington, doesn't look so good when it comes out the other side.

And then when it actually fails, it still continues for years and years because it's hard to turn off the spigot once the technology pork barrel as we call it gets rolling.

Richard Reinsch: Yeah. I want to ask you about some Asian supposed successes in industrial policy. You and I, it's funny, in my research in industrial policy, I stumbled across the amazing statement you found as well, and that's from the once wanted Japanese ministry of trade, MITI. And they said, "We thought industrial policy was the source of our success instead we found it was the source of our failure." Something like that. It's incredible statement from this once incredible government agency in the Japanese government. Are there successes in say South Korea, Taiwan?

Recently, I was at a political economy conference debating this issue and others with people on the right like Warren Cass and he was on a panel and forthrightly said, "The Taiwanese semiconductor industry proves what can happen."

Scott Lincicome: Yeah.

Richard Reinsch: And the thing is, well, there has been a great success with semiconductors in Taiwan. We don't know what would've happened without the government getting involved, but to your mind, is the Taiwan Semiconductor success story an industrial policy success story or is it more complicated?

Scott Lincicome: Well, yeah. I think it's certainly more complicated and it's more complicated in a couple ways. And first is that there's a lot of myopia from the industrial policy advocates. They see government action, they see a tangible successful outcome and they think aha, that proves we should duplicate that. And it will certainly work as well as it did in that example. Now, the first issue with that though is and this is something you've written about as well, is that when you actually dig into what Taiwan did well, their initial innovations were very much Western technology and Western.

This was not the government fomenting actual innovation, it was essentially borrowing that tech. You start from that. Now governments have lots of money and they can throw around that money. And certainly, in Taiwan, government subsidies helped boost the industry, but also there was a lot of private action in that. TSMC, the large Taiwan Semiconductor Company is a very well managed private company and government involvement in TSMC is relatively minimal these days.

But more than that, you look at Taiwan's economic makeup overall and you see that they are heavily, heavily leveraged in one industry, semiconductors. That's great when you're talking about semiconductors, but when you're talking about biotech and let's use pharmaceuticals, for example, not so much, they're laggards. And so, even where you admit there are successes, do you want the government to have that much... Do you want to have an economy that is that unbalanced, that the chances of having bigger problems for not having a more diverse economy are really rather substantial?

Richard Reinsch: Yeah.

Scott Lincicome: And then the last part, as you know is the counterfactual. If you look at some of the research, Arvind Panagariya, for example, has done some great work on this. He's at NYU. And you see that actually Taiwan grew more slowly in its peak industrial policy period than it did outside of those periods. And when you look at other industries outside of Taiwan, so look at South Korea, for example, or Japan, like you mentioned, you actually see that a lot of these companies and these industries ended up being less productive and these big hulking conglomerates that weren't very innovative or had all sorts of other problems.

You certainly say there's not a world where there aren't going to be occasional wins, but you have to ask at what cost in terms of the economic makeup of country, in terms of the counterfactuals and the other unintended consequences.

Richard Reinsch: I've thought, just well you might succeed in the short term.

Scott Lincicome: Yeah.

Richard Reinsch: Maybe the medium term. One question I've thought about in Taiwanese semiconductor success would be, there was government, I think it was a Western executive, maybe it was a Taiwan expatriate, I forget brings this technology and this idea to Taiwan and gets some initial funding through a research institute. And that becomes the basis of the company. But then the company within a couple of years is heavily private. And so, again, like the internet, but what really made it successful was it was private investment. There's this initial public seed money, but that, to me, isn't really industrial policy. I don't think.

That's just, we want the government to do some initial basic investing. And that then creates a lot of momentum for the government doing a lot of things in that regard. But I thought too, what if someone comes up with a better way to design semiconductors and a better way to manufacture them, and you've invested in this way and now what? How are you going to retool? That's also there.

Scott Lincicome: First point on the infant industry subsidization and government seed money. This gets to something I wrote about in my paper and have written elsewhere as well, that looking at small developing countries and saying, “Aha, America can and should copy that.” It’s very problematic. The US capital markets are the thickest and most active on the planet. And the idea that we need government seed money for industrial and commercial applications is pretty far-fetched. We are not 1970s Taiwan. And that leaves even aside the political differences and political systems and the rest.

Just the same economic arguments that might support some sort of infant industry involvement by the government in a developing economy just really don’t fly in the United States.

Richard Reinsch: Yeah. Thinking about, I think the elephant in the room here which seems to give this life is China.

Scott Lincicome: Yeah.

Richard Reinsch: And thinking about this new missile, hypersonic missile China launched. That made me do a double dig. Not that I think we’re going to go to war with China, but that they seem to be progressing. My impression is they seem to be outdoing us in certain forms of say super computer technology. Obviously, I think this missile they’ve launched is beyond our capability and that all brings to mind this idea again, of maybe the government should be actively engaging in technological discovery and innovation, and then allowing companies then to do something with it. Is that China? Is that what’s going on?

Are they a massive success in industrial policy and the interaction between the Chinese state? And I don’t know. I have a hard time thinking of companies being private in China. I know that’s not true. Even the private companies, I think have Chinese government members on their boards. The government is involved in something in every way, but is China this living rebuke and that’s something the economic nationalists point to as well as you know, is maybe we should be more like China.

Scott Lincicome: Right. Yeah, there’s a host of problems with that. The first and most basic is, can we be like China? Let’s assume everything is amazing there, that they are dominating in all these technologies. Just, we’ll assume that for the moment, the idea that the US economic and political system would be able to implement China style industrial policies, pretty farfetched. Not only does it require tolerating a lot of cost and a lot of failure and a lot of distortion.

But also just simply in sheer terms of how our economic systems are set up, the idea that the United States could somehow be directing bank funding and doing all this type of other stuff with state-owned enterprises is pretty loopy. Barry Naughton, the China expert wrote this great book on Chinese industrial policy and basically said as much. He said the stuff that China can do economically is not really something that Western more market oriented economies can do. That’s the first, I think big problem.

The second big problem though, is that when you actually dig into Chinese industrial policy, you see that there are a lot of failures, and certainly there are some successes. They seem to be



progressing in AI. You mentioned the hypersonic missile thing. But there are a lot of failures too. For example, China's been trying for decades to be a champion in semiconductors, and they're still a decade behind TSMC and Intel and Samsung. Most experts say they might never reach the technological frontier in semiconductors without a massive influx particularly on the human capital side.

They need a lot of smart people, but there's also other hurdles there in terms of materials and equipment and the rest. And so, that's, I think a huge rebuke because that is one area that the Chinese government has been laser focused for 30 years and they have still not much luck. Automotive, cars is another one. Everybody likes to talk about electric vehicles. Well, China has also been trying to establish a combustion engine industry for decades. They have not done very well there.

I think the biggest success is the Chinese acquisition of Volvo, which again, that's just simply borrowing others' technology. And there's several other examples out there of where, even things that look like successes. You say electric vehicles or ship building or the rest have been just immensely costly. We're talking tens of billions of dollars wasted in bankrupt companies and leveraged loans and the rest. And those are, again, the types of things that well, is that actually good for the Chinese economy, has that actually put them in a stronger position in the long term?

And I think the answer there is no. And that gets to the third point, is that regardless of what you think about China's industrial policy, the fact is that China's economy and future, they have a lot of significant issues. And it's funny if I had said this a year ago, people might have laughed at me, but now I think we, in the last year between the crackdowns on private enterprise and entrepreneurship between the Evergrande issue between a lot of folks starting to see China's debt and demographic problems, China, they are going to get old very soon.

They are very top heavy when it comes to the organization of the populous. A lot of old people, not a lot of young people, not a lot of people having babies. Well, that's a recipe for pretty substantial problems, not just in terms of innovative and productivity, but also things just simply like having a safety net that can function. And then you also look at how the productivity is going there. And a lot of that goes back to... China has significant productivity problems. They are not anywhere near the frontier in most areas. And a lot of that goes back again to their industrial policies.

These are state owned enterprises in China are increasingly ascendant. They were receding during the '90s and early 2000s, but that has changed back. And so, you have a country that, it's this big hulking ship out there, but then when you look a little closer, you see that it's old and got some cracks in it. And now, that doesn't mean that China's economy's going to implode. I'm not one of those folks that thinks that China's on the verge of collapse, but I do think that they have a lot of headwinds and it's those headwinds that should give us pause.

Do we really want first of all, to change the United States economic system because there is this immediate threat of China being a global economic hegemon? That doesn't seem quite right, but

beyond that is, do we want to have all the similar distortions and problems that that type of planning appears to have caused?

Richard Reinsch: It seems to be clearly in the last 10 years, something has changed in China regarding the government, which has never been limited by the rule of law, but a much more aggressive, powerful state intervening and killing their golden egg there or-

Scott Lincicome: Yeah.

Richard Reinsch: ...breaking it, which had really launched China economically. Something you also hear a lot about is we invented, our American companies invented software technology and made great gains with it. But the loss has been, they've offshored it to China.

Scott Lincicome: Right.

Richard Reinsch: Or to other countries. And another argument that you then hear is, and of course you and I have a story to tell about that. That makes sense, a logical economic story, but then they say, "But software manufacturing..." Something in the software manufacturing produces ideas for further innovation. And because we don't do that software manufacturing, we're missing out on software innovation, what do you make of that argument?

Scott Lincicome: Well, it's a weird argument, I think, because do we want to be truly innovative? Do we want to be the guys who invent the software or do we want to be the guys that just copy it? I'd rather have American companies focused on what's going to be the next big thing, not focused on simply trying to crank out a bunch of the last big things. And you see this time and time again. If you look at the data on, say US R&D spending, if you look at the data on venture capital, things are still really active in the United States. And in fact, by some measures at all-time highs.

We just hit 3% of GDP for research and development spending for the first time ever I think in 2019, which is the last year available and venture capital funding and all these other things have just gone crazy both before and now after the pandemic. And I want folks focused again on the cutting edge and innovative stuff. That's the stuff that really will define the next 50 years, not the last 50 years. And that's where we still seem to be headed. Now, look, are there some headwinds and some problems here too? Yeah, sure. But I'd much rather be quite frankly in the United States' position than China's in that regard.

Richard Reinsch: Yeah. The headwinds you mentioned for China, we have some of those.

Scott Lincicome: Yeah.

Richard Reinsch: We have demographic problems. We have tremendous debt problems, which we don't want to actually fix, among other things. All this debate started five or six years ago, industrial policy in America around this constant drip of an argument of manufacturing jobs. And with the loss of manufacturing jobs has hollowed out the middle class. It's hurt men in particular, it's been responsible for drug overdose deaths. It's been responsible for single

families and maybe perhaps the decline in our own birth rate. There's all sorts of things that gets tied to industrial policy to bring back manufacturing jobs.

There are cities all over the country that were hit hard by the shift in the 1990s and 2000s. Whether it's trade with China or automation or just changing industries, moving away from coal or whatever. But we hear a lot about these old industrial cities, what we don't hear about is that the vast majority of them did adapt.

That's an argument you hear from people I think are smart on a lot of other issues. What would that take? What would it look like? Do you think it's even possible? I think manufacturing jobs are like 7% of the economy. And I don't know what number would be good if according to the economic populists, they never say, but what would actually happen if you try to reshore manufacturing jobs?

Scott Lincicome: Right. Well, the problem that industrial policy folks have is just a huge contradiction in objectives. On the one hand, they want to have the most innovative and productive companies and manufacturers in advance manufacturing. On the other hand, they want to have a lot of jobs. Well, the problem is that the advanced manufacturing, first of all, the jobs that are there are going to be pretty high skill. They're going to require if not advanced degrees, at least some, well beyond a high school education, what we call now, gray collar jobs.

Yes, you're working in manufacturing, but also you know how to operate robots, you know how to program some basic programming, that kind of stuff. That's your first problem. These are not going to be the classic guy working in a steel mill type job, but the bigger problem in advanced manufacturing, there just aren't a lot of jobs there. And the fact is because they are very capital intensive, they're going to use again, robots, computers and the rest, and that's the real story of American manufacturing employment over the really long term.

But the bigger problem is that over the long term, going back to say, the 1940s, US manufacturing jobs as a share of employment are just steadily going down, they're going down at essentially the same clip, and that's a story of productivity games. There just aren't a lot of jobs in the advanced, innovative industries that industrial policy folks want. By contrast where the jobs are, are going to be in labor intensive, low wage areas. We have some of those jobs, food manufacturing, for example. We have a very large food manufacturing sector. Most of the food we consume is domestic.

Those jobs don't pay well. You're lucky if you're looking at 15 bucks an hour, but they're the types of jobs that you would need if you're trying to restore these classic men with a high school degree and nothing more in these small communities and having breadwinner families and all that jazz you hear so much about from industrial policy advocates. Well, yeah. I think theoretically we could reshore these jobs in textiles and the rest, but if we do so they're going to be tremendously unproductive and thus pretty low paying. And that's quite frankly, not going to be a good way to orient our economy.

I would much rather have industries at the high end and the most innovative and most productive than essentially forcing a certain part of the workforce into these low wage, low productivity

sectors. And that's the trouble we have in some of these issues like so you say male labor force participation and the rest. I don't think anybody doubts that, hey, there are reasons to be concerned in some of this. There are reasons to be concerned about declining male labor force participation overall, but industrial policy ain't going to solve the problem.

Having just a bunch of additional textile manufacturing in the United States or furniture or food or whatever is not going to solve the problem. These are really complex issues that are some cultural, some demographic, looking at women joining the workforce, some just modernity doing its thing, some related to education and the rest. These are not things that you can just simply flip a switch, impose some textile tariffs and then boom everybody's having babies again.

Richard Reinsch: Yeah, and you mentioned this in your writing that there are a lot of places, regions, cities in America that were heavy industrial and they experienced a decline and then they recovered.

Scott Lincicome: Yeah.

Richard Reinsch: One you mentioned resonated with me, which is Spartanburg, South Carolina. I've been through there a number of times, and it's a nice city. And you get the sense of this city is robust, economically. Certain places in North Carolina as well, but then you've got Pittsburgh, another one, and then you've got Youngstown, PA, which never came back, and which... I can't speak to the decisions that they've made but it's like always wanting someone to save you or always wanting to bring the past back and you've just got to let it go and retool, and that hasn't happened there.

And then this question too, of prime age working men. There are a lot of idle men. There's also a lot of welfare dependency, I think there too. I think there's a lot of government policies that have made this possible and that rarely gets mentioned.

Scott Lincicome: Exactly. Yeah. And that goes back to, I think, the complexity of some of these issues is, is the safety net in some cases doing more harm than good? There have been a series of papers out recently that look at work requirements that were a part of welfare reform in the '90s and they said that these were at the time these reforms that were accused of being draconian and the rest actually ended up improving the long term outcomes of single mothers or children in these families that were affected.

And those are, again, those types of really more complicated questions, but going back to what you said about Spartanburg versus Youngstown and the rest, and for those who are listening, I wrote an op-ed or a long column on this. But there are cities all over the country that were hit hard by the shift in the 1990s and 2000s. Whether it's trade with China or automation or just changing industries, moving away from coal or whatever. But we hear a lot about these old industrial cities, what we don't hear about is that the vast majority of them did adapt.

And they adapted, I think in part because of economic policies, I think certain states in particular had really bad economic policies and that makes change more difficult. The other big thing, though, like you said, is that there is this idea of economic nostalgia, that we were a city defined

by a certain industry, textiles in Spartanburg or steel in Youngstown, and that's what we're going to be. Gosh, darn it, forever. Well, Spartanburg said, "No, you know what..." They saw the writing on the wall in the 1970s and they being industry and political leadership in the state.

And so, what did they start doing? Well, they started courting for investors in automotive manufacturing, in tires for Michelin or in automotive in BMW, but also they said, "Look, let's diversify in the services again." And they had the willingness and the economic policies in place to adapt and now they're thriving and those towns, Pittsburgh, another one, those towns are all over the country. We never hear about them. Instead, we hear about Youngstown where Youngstown did not diversify.

Youngstown wanted to remain a steel town. Youngstown struggled to do anything beyond that, despite tons of federal intervention. And that I think is the story that we need to tell more on the free market side of things. That certainly some older industrial cities still struggle, but the vast majority of them have moved on. And it's that contrast, you got to ask, well, why didn't those cities move on? What were they doing wrong? It's probably not a failure of federal policy, whether it's tax, trade or whatever, surely may be some, but it's far more likely that this is a problem of state and local governance and of other things.

I think one of the things we're looking at in retrospect is that the Milltown economic model where you have a single mill at the center of a town and that the town is undiversified, it's essentially dependent on a single industry, a single factory or company is a really bad model in terms of withstanding economic shocks. That a diversified city is, and it doesn't even have to be a place like New York city or San Francisco or whatever. It can be a place like Spartanburg or here in Raleigh, for example, where I live. These are diverse areas and it's much better to have your eggs in a lot of baskets instead of in one basket.

Now, is that a reason for industrial policy or for protectionism or something like that? I think that's quite manifesting obviously not, but it's again, an argument and a viewpoint that we rarely hear in the press. It's all just simply closed mills, shuttered towns and economic populism.

Richard Reinsch: Also, there's this view of America as a, we're just in this free market country for the last three decades and these jobs just fell prey to the amount of capitalism. Senator Marco Rubio has said that at times, among others and then China got all the jobs and it seems to me it is the case. America has been very actively engaged in trying to keep and protect manufacturing jobs.

Scott Lincicome: Yeah.

Richard Reinsch: Including steel jobs and that isn't widely known and it hasn't worked. And you pointed out in your writing, if you look at countries, Western countries, Germany sticks out, I think France sticks out, that have really tried to manufacture or keep their manufacturing jobs, they too have experienced a decline as well. It's automation and also offshoring and also consumer decisions as people get wealthier, they buy more refined products and services with that income. And so, that also, but that takes a while to explain that.

Scott Lincicome: Yeah, exactly. That brings up another great point is that you hear so much that the plight of the American working class is due to decades of laissez-faire, free market fundamentalism, right? But when you actually dig into the history and the policies, you see that look, first of all, the United States has a lot of protectionism in place. You look across certain industries and across, whether it's ship building or sugar, or even textiles and apparel and footwear, or then you look at anti-dumping and counter bailing duty policy where we have hundreds of special duties in place specifically intended to protect American workers and American manufacturing. And these things, it turns out that, like standing in the middle of the ocean and promising to stop the waves.

It might, maybe you have a little success for a second, but at the end of the day, you're going to get soaking wet anyway. And that's because these are bigger global phenomena that are happening all over the world, they tend to happen as countries develop economically. And it's those seismic forces that are really what's driving things at the end of the day. And that protectionism most often, and the subsidies and the rest most often do more harm than good by encouraging industries to not innovate in the face of competition.

By encouraging workers not to adapt and upgrade their skills or move on to other industries. And by creating bloated industries like the ship building industry, which has had a hundred years of protection from the Jones Act, and now can't make a ship that's worth a darn. It costs five times as much to make a ship in the United States, as it does abroad as a result, you've seen the slow degradation of the US merchant Marine and all sorts of other distortions. And, by the way, an industry that is far better at lobbying than it is at making ships, because they have a...

Honestly, it's a really impressive lobbying machine to maintain that protection. And so, that's the sad, but true story of a lot of industrial policy that it just doesn't work very well in the face of these broader challenges. With that in mind, there are things that do tend to work pretty well. Nothing's perfect, but we know that whether it's streamline tax and regulation policy or high skill immigration, or just immigration generally, there are things that do tend to help, but it's just not, like you said, it's not an easy solution as opposed to just saying, "I'm going to save all your jobs."

Richard Reinsch: Yeah. It requires patience. It requires a certain amount of prudence and the ability to see things in the long term and-

Scott Lincicome: Yeah. And an optimism too. One of the things I like about being on the free market side of things is there's an inherent optimism in supporting free markets. The idea is that, I actually do think that the US economy for all its worth is a prosperity machine and has been one for a century plus. And I think that individuals can, if given the opportunity can better themselves and can make it. However, you want to describe it. It's nice to be on that side because quite frankly, the industrial policy side is really quite pessimistic.

Workers can't make it, industries can't survive, innovation can't exist without massive subsidies or protection or whatever. And that the best thing that we can do for these communities is to just let them stay etherized or frozen in Amber in a certain period of time that has long since passed instead of giving them a kick in the butt and getting them along the way.

Richard Reinsch: Yeah. Scott, maybe we'll end there. Thank you so much for coming on to discuss what is industrial policy and what it would look like if it were implemented. Appreciate your time.

Scott Lincicome: My pleasure. Thanks for having me.

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