



The Case for an American Industrial Policy

There is mounting pressure towards building an industrial policy in the United States. With increasing concerns over the COVID-19 pandemic and following economic repercussions, economic experts are urging discussions on curating such policy. This paper will touch upon how industrial policy has been enacted worldwide, the partisan debate over such policy, and overall, how industrial policy can soothe current-day challenges and lead the US towards a better overall manufacturing mindset. Moreover, an explanation of why reshoring efforts must be included in industrial policymaking will be provided.

COVID-19 AND THE U.S. ECONOMY

Today, millions of Americans have experienced a total change in daily life due to the COVID-19 pandemic. Although there is no definitive way to determine the exact scope of damage done to the economy due to the crisis, there is widespread agreement that it will have a severely negative impact on the global economy. Economists claim that the best-case scenario would involve a loss of at least 3% in this year's global GDP, costing the United States trillions of dollars. US GDP in Q2 suffered a loss of 33%, April's unemployment increased to 14.7%, 6 million unemployment claims were filed in the last week of March, and the Dow Jones suffered its worst day in history.

Though this period in American history is challenging, it also poses a unique opportunity of re-imagining our views on American manufacturing. Now more than ever, the US is in desperate need of an industrial policy.

INDUSTRIAL POLICY AROUND THE WORLD

So, what exactly do we mean by an industrial policy? Well, here are a few examples from around the world:

- **China has used an industrial policy as a reform instrument since the late 1980s**, serving as a pivotal role in the country's development. The use of the policy has shifted the economy from imperatively planned to a "market economy with Chinese characteristics." A series of thirteen "5-year plans" have guided the economy for decades, proving to be extremely successful. China has blossomed into the second largest global economy, serving as the "factory of the world" as a result of active and targeted industrial policymaking. Decades of policy have allowed

Chinese manufacturing to soar. A large handful of programs ranging from financial support, technology, innovation, research, and development were boosted by these strategies. In more recent years, the national policy of “Made in China 2025” has begun to sculpt a more dynamic Chinese economy. This policy emphasizes high-quality tech like artificial intelligence, aerospace, semiconductors, and biotech. Industrial policy has served as the common denominator in the rise of China, guiding the country closer to becoming the international leader of innovation and technology of the future.

- **Japan has successfully promoted industrial development**, shifted resources to specific industries, and fostered an international competitive advantage using industrial policy. Influence, prestige, advice, and persuasion are used to encourage both corporations and individuals to work in directions judged desirable by the Japanese government. Policy usually is in the form of providing or withholding loans, grants, subsidies, licenses, contracts, and more. Japan is low in natural resources and experiences a rapidly aging population, however, with the help of industrial policy, Japan has proved successful in rapidly growing its economy, nonetheless.
- **The German Federal Ministry for Economic Affairs and Energy** has published its first version of a national industrial policy titled “National Industriestrategie 2030.” The objective of the strategy is to boost the entire German industrial sector and build on technological industries (automation, digitization, artificial intelligence, battery cell manufacturing,) benefitting not only Germany but the entire EU. Though this policy is only in its drafting stage, experts are optimistic that a “Made in Germany” strategy will bring growth, prosperity, and progress.
- **Another EU member, France, also enjoys an industrial strategy.** French policy has been crafted to boost industry, reduce taxes on capital, invest in innovation, and create new jobs for everyone in the EU to enjoy. For the first time in 10 years, France is creating more industrial jobs than it is losing, opening more industrial sites than it is closing, and massively increasing industry jobs. Industries like energy, transport, and aerospace technology are booming.

BENEFITS AND CRITICISM OF A U.S. INDUSTRIAL POLICY

Some of the world’s economic superpowers are champions of curated industrial policy. They have been successful in guiding economic activity to better serve their population without puncturing the integrity of a competitive market. So, why has the US refrained from following their lead? Well, like many issues in the US, things have boiled down to partisan disagreement.

Conservatives often reference traditional economic theory, arguing that optimal efficiency can only be achieved when the market can flow freely. Whatever you’d like to call it; supply and demand, the free market, the invisible hand, laissez-faire, or free enterprise, the general opinion amongst conservatives is that the government shouldn’t get involved. Much like Adam Smith, they believe the economy is self-regulating and industrial policy threatens the reliability of the market. In addition, conservatives have branded industrial policy as dangerous, confusing, and frequently ineffective. Not to mention, conservatives also commonly associate industrial policy with the beginning phases of socialism, so acknowledgment of the topic can result in political push-back.

On the other side of the political spectrum, democrats tend to favor later schools of economic thought. They have considered that perhaps a completely unregulated market doesn’t best serve the immediate needs of a nation. They argue that state intervention can remove market obstacles and sponsor business innovation and success. In particular, it can boost critical industries needed to remedy immediate concerns. They often cite industrial policy as a major reason for the success of other global economic superpowers.

This political gridlock has left the US with the lack of industrial policy seen today. The COVID-19 pandemic has exposed serious vulnerabilities in critical industries, but, it has also provided an opportunity to address the critical needs of the American public. This form of intervention is critical in boosting US pharmaceutical and medical industries amidst a pandemic. In addition, industries like defense equipment, telecom equipment, and rare earth elements are also essential for America's forward progression. Other interventionist economic policies are used today that aid American interest. This long list includes minimum wage, subsidies, taxes, tariffs, trade quotas, and other price controls. If the general population can get behind these efforts, is it possible that they could get behind an industrial policy, especially during a national crisis?

WHAT SHOULD U.S. INDUSTRIAL POLICY LOOK LIKE?

Not only is there debate over creating an industrial policy in general, but there is also even more debate over the contents of such policy. Amidst this dispute, here are some potential ideas on what US industrial policy could look like:

- Creation of a "preferred list" of industries in the most need of a boost from US policy. As mentioned earlier, pharmaceutical, defense, telecom, and rare earth industries should be included.
- Buy American regulations that incentivize the purchase of American goods over foreign goods.
- Tax breaks and subsidies that incentivize the production of goods on the preferred list.
- Lost cost-loans and grants to incentivize firms in producing technology and products on the preferred list.
- Land grants to companies producing essential goods.
- Training credits gifted to companies that have trained or retrained employees for the new required skills to produce new technologies.

In addition, the practice of reshoring American business must be included in future industrial policy. The COVID-19 pandemic has disrupted countless supply chains across the globe, especially those that heavily rely on Chinese manufacturing. Now more than ever, the US government and US businesses have an incentive to cooperate on reshoring projects. By using government-backed production policy, jobs that have been outsourced overseas can return to the US, which is critical in reviving the economy. Furthermore, strengthening US medical

and pharmaceutical industries through reshoring policymaking is vital to national security interests and combatting future public health crises. There are multiple ways to encourage reshoring, such as low-interest loans, tax incentives, training credits, and more.

On the topic of reshoring policy, US Representative Lori Trahan explains: "This is an opportunity for us to make sure we're prepared for future pandemics, and it would be an unbelievable source of jobs to bring back to the U.S. to help stimulate the economy."

These are just a few overarching ideas that can help support certain industries and bring business back to the US. Optimistically speaking, the creation of industrial policy using these guidelines may alleviate the economic consequences caused by the COVID-19 pandemic and quicken the recovery period.

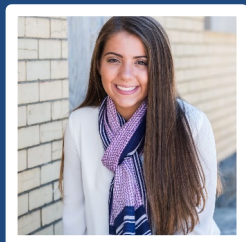
CONCLUSION

As discussed, an industrial policy provides an opportunity for the most critical industries within an economy to flourish. There are success stories all across the globe to confirm this. Amid a pandemic and economic uncertainty, now more than ever, the United States needs to rally behind a unified industrial policy.

Citations:

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