The Daily Dish

Industrial Policy and China

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It has become apparent over the past half-decade that China is a relentless rival for global economic, diplomatic, and military supremacy, and it is a welcome bipartisan development that policymakers are willing to meet this challenge. On the economic front, the current vehicles for such policy changes are the United States Innovation and Competition Act (USICA), which has passed the U.S. Senate, and the America Creating Opportunities for Manufacturing, Pre-Eminence in Technology, and Economic Strength (America COMPETES) Act, which has been introduced in the House. (As an aside, I know that Congress has parliamentarians, offices to draft legislative text, and other supports for the legislative process. Is there a congressional acronymist? There should be.)

Upon reflection, it is obvious that the goal of these pieces of legislation should be to override the market incentives that policymakers decided have left the U.S. exposed to the China threat. When policymakers override market outcomes, it is labeled industrial policy. In this case, using legislation to get the production of key goods out of China is industrial policy.

Industrial policy is usually not a good idea. After all, Congress is hardly in a better position to adjudicate winners and losers than households, who know exactly what they want, exactly when in their lifetimes they plan to buy it, and how it fits into their overall financial plan. Congress can guess at these things, but households can convey them precisely with their spending choices. Similarly, firms are well positioned to know the costs of alternative production methods, the expected development of new technologies, the availability of supplies, and myriad other factors at which Congress can only guess.

Tom Lee has a nice new piece that looks at the industrial policies in America COMPETES and USICA. A key insight is that "not in China" does not necessarily mean "in the USA." So, Lee expresses concern that spending $52 billion to subsidize semiconductor manufacturing in the United States will take too long to address the current shortage, simply use taxpayer funds in place of private sector investments that will happen anyway, and distort the semiconductor market in ways that have nothing to do with China.

Similarly, "not in China" does not mean "let's have the U.S. government take it over." It is baffling that "America COMPETES would create a new Supply Chain Resilience Program (SCRP) that would cost $45 billion for FYs 2022-2027. Through SCRP, America COMPETES would engage in a more aggressive industrial policy than USICA. The SCRP would provide grants, loans, and loan guarantees to U.S. entities that engage in certain 'eligible activities.'" Private business has every reason to invest in its own supply-chain resiliency. This is an open invitation to get taxpayer dollars to move something out of China that was going to be moved anyway. And you can bet your last Twizzler that even think tank work will be considered an "eligible activity" by time the lobbyists finish making Swiss cheese of the intent.

There is more and I encourage you to read the entire piece. But the moral is clear: The imperative to address the challenge of China can easily be misused for good, old-fashioned pork barrel handouts.