

POLICY SPOTLIGHT

Targeted Industrial Policy Will Not Boost High-Tech Innovation;
Encouraging Entrepreneurialism Will

ADAM THIERER | NOVEMBER 2021

Can American companies compete? Lawmakers of all stripes are asking this question today in response to growing Chinese economic and military power. What's more, they are calling for an industrial policy to boost innovation in semiconductors, 5G wireless networks, artificial intelligence, and other strategic high-tech sectors.

Policymakers argue such action is necessary to keep American companies globally competitive against China (and to a lesser extent against the European Union). However, such top-down efforts have a poor record of success. Government should instead focus on a more generalized approach to economic development that entails less taxpayer risk and that can deliver more innovation.

HOW GOOD IS GOVERNMENT AT PICKING WINNERS AND LOSERS?

Most advocates in this area call for the creation of detailed blueprints to encourage development in key high-tech sectors. Such blueprints are a *targeted* approach that favors particular firms and industries over others. Government-granted benefits include tax relief, cash subsidies, regulatory dispensations, and in-kind donations of land and other valuable goods and services. Overall, a few main factors prevent government from implementing successful industry policy.

Playing roulette with tax dollars. Promoting innovation by firms and industries is not a precise activity with easy-to-follow steps. Indeed, when it comes to making bets on future technologies, governments tend to make a lot more errors than do private entities. As a result, industrial policy is little more than casino eco-

nomics—governments betting against the odds and rolling the dice with taxpayers' money.

Playing up benefits. Its advocates often tell less than half of the story about industrial policy planning. While emphasizing the handful of successes they ignore the many expensive failures. They also exaggerate the potential benefits of public planning and spending, claiming that state support will result in significant multiplier effects that spur additional economic activity—new firms, jobs, and other positive spillovers.

Downplaying downsides. Targeted development efforts typically involve tradeoffs not taken into consideration by industrial policy advocates. Downsides include government steering public money into unproductive endeavors as well as more serious problems such as cronyism and corruption. In the end, every dollar of taxpayers' money spent is a dollar that could have been invested differently and, potentially, better.

BENEFITS OF A GENERAL APPROACH OVER TARGETED DEVELOPMENT EFFORTS

Instead of targeted development, government should address the policy prerequisites that helped give rise to America's computing and internet revolutions (i.e., a policy approach to development that is rooted in light-touch regulation and taxation of emerging technology). Doing so requires less risk and cost for taxpayers while encouraging more innovative outcomes. Such an approach includes a focus on the following:

- Streamlined permitting processes and sensible regulations
- Simplified and equally applied taxes
- Clear protection of contracts and property rights
- Sound money
- Limits on frivolous lawsuits

These are the unexciting issues that often get neglected in the rush to hand out money, which policymakers seem to enjoy.

AMERICA HAS THE MOST VIBRANT VENTURE CAPITAL MARKET IN THE WORLD

One should be skeptical about the ability of technocratic planners to forecast the future and make wise bets with taxpayer resources. In the United States there is an entire economic sector designed to bet on risky ideas: private venture capital. Entrepreneurs and venture capitalists engaging in market competition and experimentation have a greater ability to deliver the innovation US industry needs. Policymakers

should focus on creating the conditions that allow this to happen.

FURTHER READING

Adam Thierer and Connor Haaland, *Does the United States Need a More Targeted Industrial Policy for High Tech?* (Arlington, VA: Mercatus Center at George Mason University, 2021).

Adam Thierer, "Industrial Policy as 'Casino Economics,'" *The Hill*, July 12, 2021.

Matthew D. Mitchell and Adam Thierer, "Industrial Policy Is a Very Old, New Idea," *Discourse*, April 6, 2021.

Adam Thierer, "Government Planning and Spending Won't Replicate Silicon Valley," *Discourse*, August 18, 2021.

Adam Thierer, "'Japan Inc.' and Other Tales of Industrial Policy Apocalypse," *Discourse*, June 28, 2021.

ABOUT THE AUTHOR

Adam Thierer is a senior research fellow at the Mercatus Center at George Mason University. He specializes in innovation, entrepreneurialism, internet, and free-speech issues, with a particular focus on the public policy concerns surrounding emerging technologies.

ABOUT POLICY SPOTLIGHTS

Mercatus Policy Spotlights provide a high-level overview of key issues facing the nation's policymakers and introduce relevant policy positions.



WWW.MERCATUS.ORG