Preface

Industrial policy today is still one of the most contentious topics in the American political and economic debate. The disagreement is based on differing definitions of the term and, more importantly, on differing views of government, markets, and society. Though many are unaware of it, industrial policy ideas have a long history in America, going back to the days of independence. This history of industrial policy in the country is full of contradictory rhetoric and policy practices, and today the issue is still a taboo for many at least for two reasons. First, the traditional cultural view that government intervention in American life should be as unintrusive as possible. This assumption has been easily exploited by political rhetoric in order to polarize and sway public opinion. Second, the cultural view has been reinforced by fiscal conservatism, viewing all government intervention as necessarily increasing government expenditure. This assumption seems to be especially powerful today, during the current economic crisis, prompting some to argue that, even if industrial policy were a good idea, we cannot afford it!

In this scenario, the first two chapters of our book highlight situations when markets fail, and why in some circumstances government intervention is needed. But we also discuss situations in which government intervention is needed not to replace a failing market, but to make markets work better. On the other hand, we know that government intervention can fail and this is why proper industrial policy should also address the source of government failure, just as it does for market failure. Better markets need better government. And we will argue that better societies need both better markets and better governments.

Next, in Chapters 3 and 4, we ask what role these ideas have played in America’s economic past and in more recent times. Chapters 5, 6, and 7 deal in more detail with the industrial policies of the Obama administration, pointing out ways in which these policies mark a turning point in the role of industrial policy in America’s economic history. We conclude, in Chapter 8, with a discussion of what role industrial policy might play in the future.

Our look at America’s economic development, past and present, suggests that the concept of industrial policy is certainly not alien to the
American experience. However, we have observed that President Obama has been considerably more willing to use industrial policy tools to address national goals than his predecessors. Now, to become more effective, the second Obama administration needs more support in this field from Congress, academics and public opinion. The timing is critical because of the economic crisis and the challenges coming from the new industrial powers. The time has arrived for breaking the taboo and discussing the nation’s goals, targets, and tools for a new, effective, American industrial policy.