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Why We're Asking the Wrong Question About the Industrial Policy Push

Proponents of the ongoing push for national industrial policy, whether they come from the left or the right, frequently argue that we need to promote certain sectors or technologies to create a manufacturing boom. This boom, we're told, is necessary to create more high-paying jobs. But I beg to differ. Industrial policy isn't and shouldn't be primarily about creating jobs. Its primary purpose, if it should exist at all, lies elsewhere.

The ultimate objective of an economy is not to provide jobs per se, but to improve overall living standards. This happens with an ever-increasing availability of quality goods and services that people voluntarily purchase to enrich their lives. Good jobs are a means to this end; they are not the end itself. This reality is easily proven by asking someone who loves his job if he'd continue to do it if it paid nothing. Virtually everyone's honest answer would be no.

Now, don't get me wrong: This requires spending power, and employment is how most of us get that, so the value of employment as a means is high. But it's still a means. If new jobs were truly the only ends, the government could simply pay one-half of the population to produce outputs and pay the other half to destroy those outputs.

Obviously, any plausible justification for industrial policy must include more than job creation. Interventions are often done in the name of national security. This, for example, is the point of the CHIPS Act, which allocates over \$50 billion in subsidies to reshore the production of semiconductors away from Taiwan in the event that China decides to invade its neighbor.

Leaving aside the fact that national security is too often and too easily used to justify economic interventions that have little to do with foreign threats, the argument reveals why industrial policy is no tool of job creation.

Think about it this way: Government favoritism in the form of subsidies, tariffs and other interventions allocates resources (labor and capital) differently than the way resources are allocated by consumers spending their own money. Ordinarily, businesses — spending their investors' money — compete for these consumer dollars. Industrial policy rests on the assumption that such market outcomes don't adequately support higher causes such as national security. If that's true, it's all the justification industrial policy needs. Nothing needs to be said about jobs.



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Nor should it. I'm skeptical that industrial policy will really spark a manufacturing boom in the first place. First, subsidies, tax credits and government loans often end up paying firms to do what they were already doing. In addition, government favors tend to reallocate resources politically and not in ways that truly further the national interest. That means shifting resources away from some nonsubsidized businesses toward subsidized ones, independently of their economic merit.

Second, the United States doesn't make these decisions in a vacuum. As Scott Foster explains in the *Asia Times*, "the globalization of production capacity and new technology development is accelerating away from the United States," in part because "Europe, Taiwan, South Korea and Japan want to keep their leading-edge technologies at home."

Finally, the Biden administration's generous subsidies often come with complications like requiring firms to provide expensive childcare or buy American. And to stay friends with European governments, the administration eased requirements that to be eligible for Inflation Reduction Act incentives, electric vehicles should be assembled in North America and exclude critical mineral or battery components from "foreign entities of concern" (i.e., China).

Even if today's industrial policy does trigger an industrial boom, we shouldn't expect a corresponding manufacturing job boom. As Noah Smith reminded his readers in a recent blog post, "(M)ost of the actual production work will be done by robots, because we are a rich country with very high labor costs and lots of abundant capital and technology. Automated manufacturing is what we specialize in, not labor-intensive manufacturing."

The best job-creation policy is a strong economy. The government should be content to create a level playing field with transparent rules and strong protection of property and contract rights. Of course, it should also supply public goods like infrastructure and ensure a stable legal system.

Be wary of those who push industrial policy as a means of job creation. It's a short-sighted approach that distracts us from the more important question, which is whether hindering the market allocation of resources is truly justified for national security or other valid reasons.

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