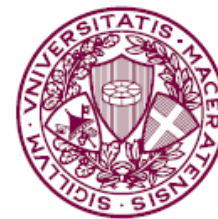


**University of Macerata**  
**Economics - A.Y. 2023/2024**  
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## Industrial policy in the United States

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# The US case

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- The United States has been frequently described as a country where the “**antipathy for government, and the corresponding belief in individualism, competition, and the marketplace, go back to the days of the founding**” (Etzioni, 1983, p. 47)
- Nevertheless, throughout American history, the government has continually interacted with industrial dynamics by adapting its approach to the changing conditions of the economy and society (Di Tommaso and Schweiter, 2013).
- We analyse industrial policy in the US history, highlighting specific **circumstances** where the government has played a crucial role and **tools of interventions**.

# American industrial strategy in historical perspective

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The discussion is divided into five different parts that consider the “American industrial strategies” implemented since the US independence:

1. **Infant Industry Strategy (1791–1861);**
2. **Oligopolistic Strategy (1861–1933);**
3. **Mass-Consumption Strategy (1933–73);**
4. **Neoliberal Strategy (1973–2008);**
5. **New-nationalist Strategy (2008-present)**



# Infant Industry Strategy (1791–1861)

- At the time of the US Independence (1776) First industrial revolution was underway (early processes of industrial growth generated in the US by European industrialization). **Infant industries** of the time included **textile, iron, copper, coal, glass, gunpowder** and **books**.
- First industrial revolution progressively reinforced the economic conditions and social expectancy for industrial development, strengthening the “power” of industrialists and some politicians in favour of industrial development => the Secretary of the Treasury **Alexander Hamilton** presented to Congress the **Report on the Subject of Manufactures** (Hamilton, 1791) promoting and protecting from foreign competition core **infant industries** => Contrasts between **southern plantation owners** and **northern industrialists**.
- *Infant Industry Strategy (the “institutional framework” governing industrial development)*: tariffs on imported products (40%), subsidies directed to strategic industries, tax exemption for raw materials, prohibition to export of innovative products and machineries to avoid appropriation by foreign competition, and support for the improvement of national infrastructure.

# Oligopolistic Strategy (1861–1933)

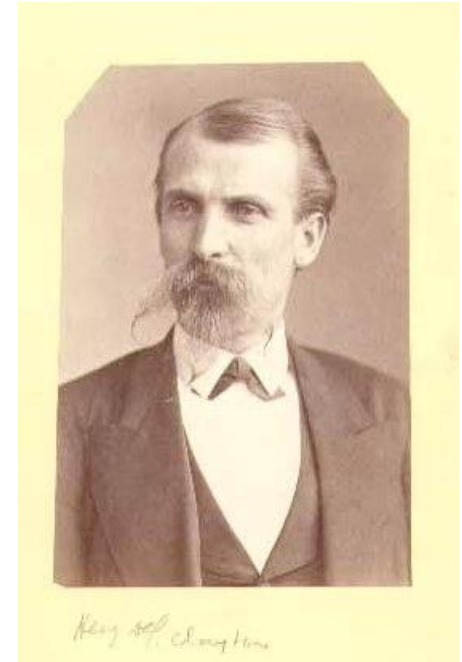
- The “Infant Industry Strategy” had produced an economic structure consistent with the growth of several large corporations. In the 1860s, various industries of the American economy were already characterized by a small number of **large corporations** that dominated the market (e.g., **railroad** and **steel**). The **Great Depression of the 1870s, 1880s and 1890s** would further intensify **market concentration**, strengthening the influence of large firms that had managed to survive the crisis.
- The **Civil War** provided the opportunity to consolidate the industrialists’ position of influence in the American system: the northern manufacturing states, which had won the war, established their national hegemony through the Republican Party, which had managed to obtain the vote of states that had previously been traditionally in favour of free trade => Contrasts between **large industrial corporations** and **antitrust movements**

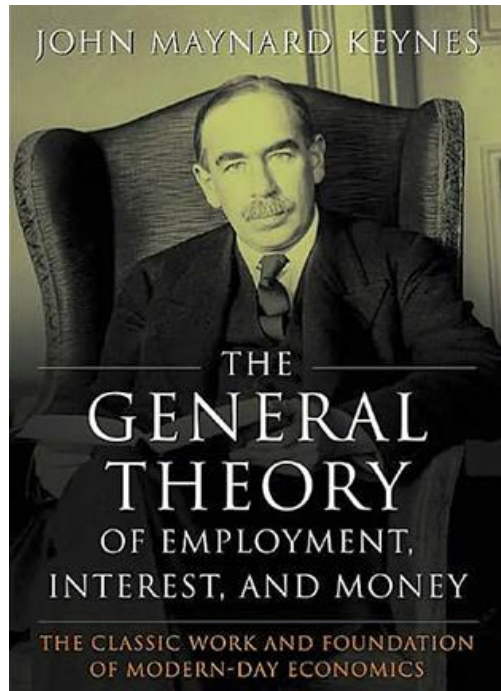
# Oligopolistic Strategy (1861–1933)



➤ *Oligopolistic Strategy*: on the one hand, the government de facto allowed the development of national cartels and oligopolies under the pressure of the industrialist class; on the other hand, the government assumed a more stable role in regulating this market power in resolving differences of interest within the national system.

- In 1887 the ***Interstate Commerce Commission (ICC)*** was created as the first federal regulatory agency in charge of managing industry-related issues.
- Later, the ***Sherman Antitrust Act of 1890*** and the ***Clayton Antitrust Act of 1914***. Nevertheless, considerable toleration was exercised with respect to national cartels and oligopolies. In 1901, the *United States Steel Corporation* (USSC) became the first billion dollar corporation in the iron and steel industry (Stein, 1998).





# Mass-Consumption Strategy (1933–73)

- The “Oligopolistic Strategy” had produced an “economic structure” characterized by a huge industrial productive capacity (*Fordism* was changing the organization of production within factories) that coexisted with sharp income inequalities and low domestic capacities of consumption. These unsustainable conditions were at the base of the Great Depression of the 1930s, reducing consumption and generating dramatic unemployment (Dobbin, 1994).
- These imbalances within the “economic structure” created the conditions for workers and middle-classes to become crucial actors for generating new demand and recovering the system. => conflicts in the US society between *capitalists* and *workers*.
- *Mass-Consumption Strategy*: Government policies were re-oriented to creating new jobs, higher wages and salaries and social interventions to restore the conditions of Americans. In this era, public demand and spending acquired a crucial role as a tool for economic and social development (Dobbin, 1994). => **Keynesian perspective** (=> *golden age*)



# Mass-Consumption Strategy (1933–73)

## ➤ The National Industrial Recovery Act of 1933:

- Jobs and public procurements were promoted to boost employment and support domestic demand.
- **Public Works Administration** was established for the implementation of a large public works programs.
- **The Buy American Act of 1933** stimulated domestic demand by imposing limits on the purchase of foreign products in public contracts.



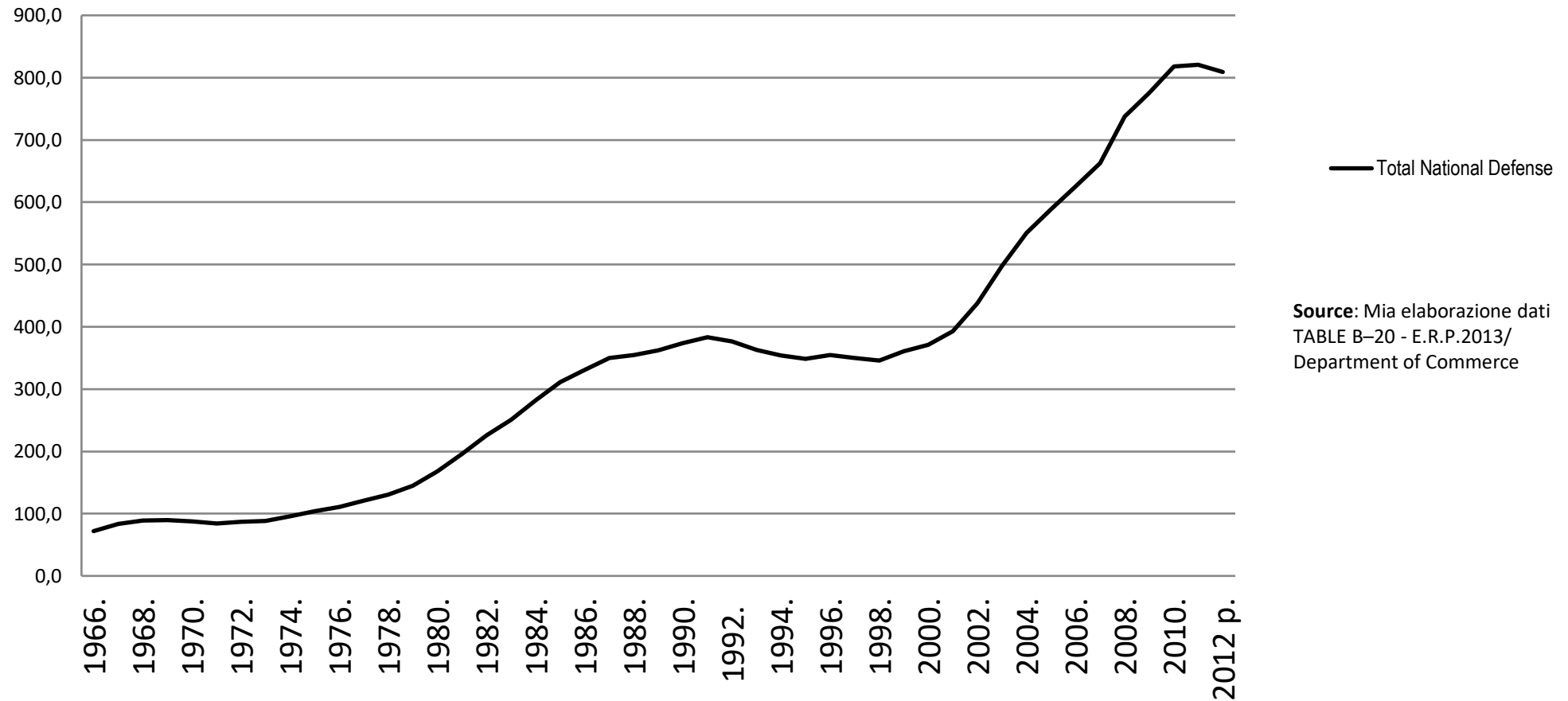
## ➤ Military expenditures as industrial policy: public procurements and R&D spill-overs

=> *World Wars, Cold War, War in Korea, Vietnam, Kuwait, Iraq and Afghanistan*

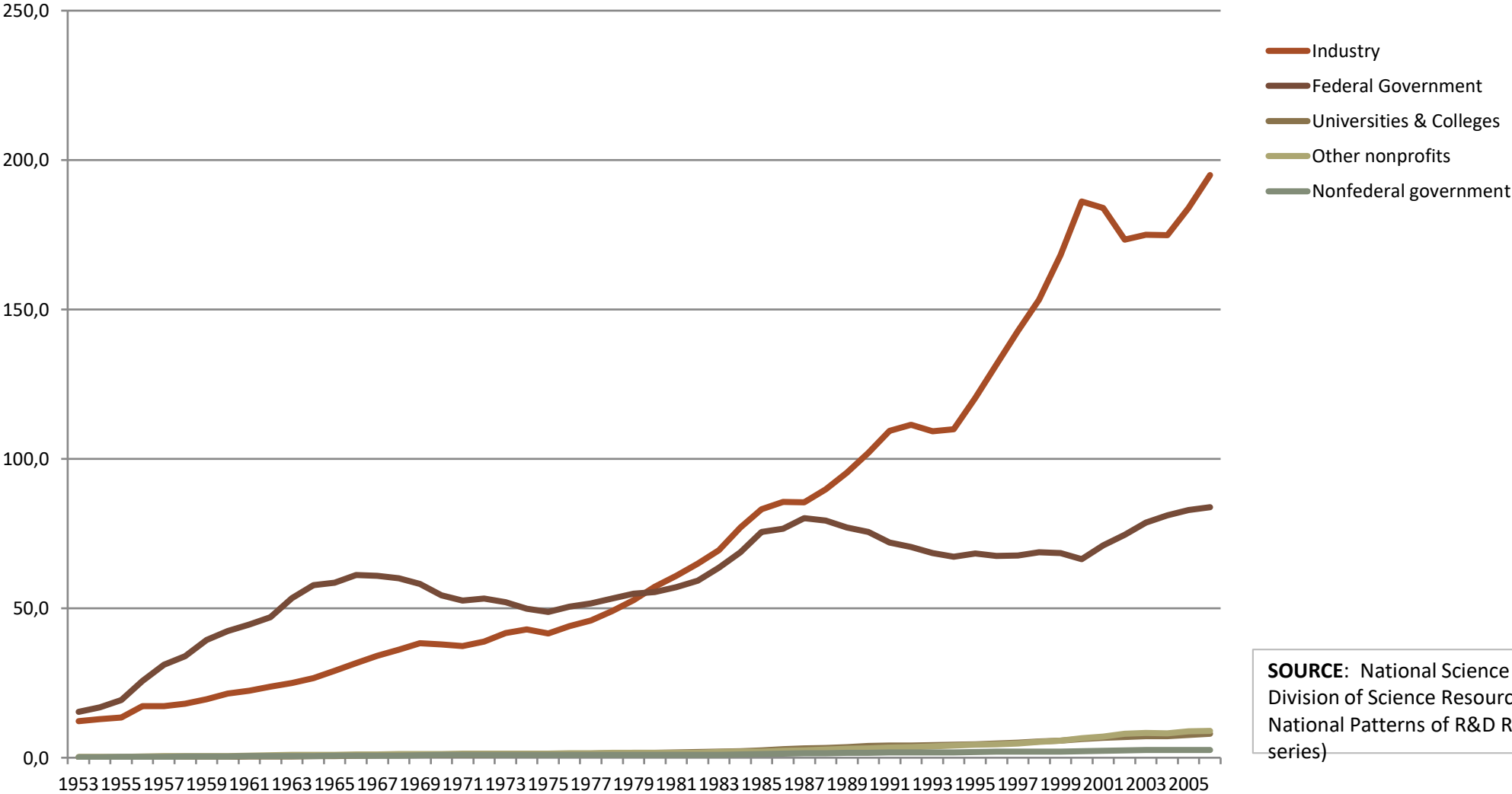
- The government, pushed by military necessities, continued with an interventionist approach: a growing demand for goods and services to the US economy was led by the government, fostering in many cases innovation in particular industries (**automotive, airplane, shipbuilding**) => **strategic industries** for their long **value chain, economies of scale**.
- During the **Cold War** the US government's military spending was about **US\$ 16 trillion** (Nester, 1997): under this framework many sectors saw rapid development, including **software** and **computers**, the **memory chip industry**, **nuclear energy**, and **biotechnology** (Mazzucato, 2013). => e.g., Internet was created in 1960s from the US Department of Defence; Space exploration (Apollo) by NASA fostered electronics



# Total National Defense Government Consumption (Expenditures and Gross Investment). [Billions of Dollars, quarterly data at saesonally adjuststed annual rates]



U.S. R&D expenditures: 1953–2007  
(2000 const \$billions)



**SOURCE:** National Science Foundation, Division of Science Resources Statistics, National Patterns of R&D Resources (annual series)

# Neoliberal Strategy (1973–2008)

➤ With the oil price shocks of 1973, unemployment and inflation (i.e., **stagflation**) started to increase. From 1969 to 1975, the US rate of unemployment increased from 3.5 percent to 8.5 percent, and real GDP stagnated (ERP, 2013). The Keynesian policies of previous decades had reduced private investment, and industrial productive capacity was progressively saturated.

- Under these conditions of the “economic structure”, which dramatically impoverished American society, existing pressures for a change in the government’s approach could increase their “power” by presenting themselves as an effective alternative in responding to the crisis.
- Pressures came from entrepreneurs and intellectuals that strived to organize the corporate sector and a network of free-market think-tanks to push back against Keynesianism and to promote neoliberal policies for reducing government fiscal pressure on the private sector and increasing private investment. => Contrast between **Multinational corporations and Labour Union** (at academic level between **Harvard School and Chicago School**).

## Dominant rhetoric

*“The Administration remains strongly opposed to any sort of industrial policy, which would involve second-guessing private investment decisions by selecting particular firms, industries, or commercial technologies for favorable tax treatment or direct subsidies. History provides strong support for the view that private market participants, who have profits and jobs at stake, have sharper incentives and better information than government decision-makers and, as a consequence, make sounder investment decision.” (U.S. C.E. Adv., 1990, p. 25).*

# Neoliberal Strategy (1973–2008)

## **Neoliberal strategy:**

*This Administration is committed to a high-wage strategy to enable the United States to take advantage of the new opportunities and to meet the new challenges of the changing global marketplace. This strategy consists of two distinct but interrelated parts: trade policies that will promote trade and foster more-open markets both at home and abroad; and domestic policies that will help American companies remain the most skilled and productive in the world.*

*(ERP, 1994, p. 206)*

Two main **policy leverages** were deployed in this strategy:

- I. the US capacity to foster competitiveness of American firms through **domestic policies**;
- II. the US ability to negotiate favourable conditions for American industry in **international trade agreements**.

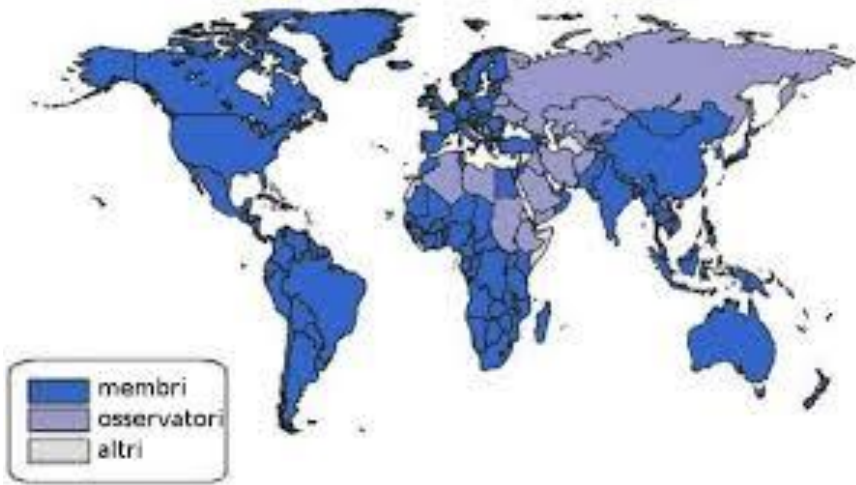
# The US domestic policies for promoting national industry

- **Military expenditure** continued to be particularly significant, supporting industries through **public procurement**, publicly financed **R&D programs** and **public-private initiatives** (Weiss, 2014)
- **Small Business Innovation Research (SBIR)** established in 1982 and the **Manufacturing Extension Partnerships (MEPs)** founded in 1988 started to operate at the “meso” level with the aim of overcoming *network failures* (Block, 2008): these programmes established a network of institutions and organizations able to advance innovation dynamics by fostering cooperation and the exchange of information among the agents of an increasing complex system of production.
- In the 1990s, the SBIR programme was integrated with the **Small Business Technology Transfer (STTR)** programme to expand funding opportunities for R&D.
- Technological innovation in information and communication technologies (**ICTs**) and the commercialization of the **Internet**: an economic and social revolutions (**New Economy**)
- During the 2000s, the “**war on terror**” led to economic growth again mainly driven by **military demand**.
- The 2008 Crisis, the Obama administration implemented the **American Recovery and Reinvestment Act (ARRA)**, a stimulus package worth a total of **\$787 billion**: around a third of the total resources of ARRA were allocated to financing particular industries, such as the **automobile industry**, **energy industry** and **green industries**, **ICT**, **broadband** and **infrastructure**.

# The US's ability to negotiate favorable conditions in international agreements

- **“Voluntary” export restraints (VERs)** with foreign economies, namely restrictions on exports self-imposed by the foreign governments themselves, for protecting declining industries, including the car industry, textiles, steel, and semiconductors (Niskanen, 1988)
- **“Aggressive unilateralism”**: the US exercised pressure on foreign governments to reduce barriers to American exports and investments through trade threats, without any reciprocal concession (Bingham and Sharpe, 1998)
- During the 1990s, the **creation of the WTO** renewed the institutional framework for managing global trade, but America's ability to force foreign economies to open their markets through WTO rules and bilateral trade agreements, without granting any reciprocal concessions, remained the same (Hopewell, 2016).
- **Acceleration of globalization**: the **Washington Consensus** (liberalization, privatization and fiscal austerity in developing countries), **Fall of the Berlin Wall** (1989) (liberalization of the ex-socialist economies); **NAFTA** ('94), **European Union single market** ('93), **WTO** ('94).

# The US influence in the definition of global economic rules



*“Although the principle of one country, one vote as always characterized the GATT, in fact GATT votes were almost never taken; decisions were reached on the basis of consensus among members. In practice, the United States has always had a major influence over the course of GATT policy, not because it has had a larger formal vote but, in baldest terms, because it brought the largest market to the table. [...] Of course, Uruguay Round agreement and the WTO do place obligations on the United States, but the balance of obligations in this accord is favorable.”*

(U.S. Council of Economic Advisors, 1995, p. 212)

- Obama attempted to conclude big regional agreements, namely the Trans-Pacific Partnership Agreement (TPP) and the Transatlantic Trade and Investment Partnership (TTIP).
- However, since the early 2000s, this approach has started to be seriously questioned, causing it to lose much of its effectiveness (Hopewell, 2016): **the rise of the BRIC nations** weakened the US’s international influence within the WTO, establishing a new world economic order where the old international institutions created from Bretton Woods are losing their effectiveness in advancing “the American-led project of neoliberal globalization” (Hopewell, 2016).





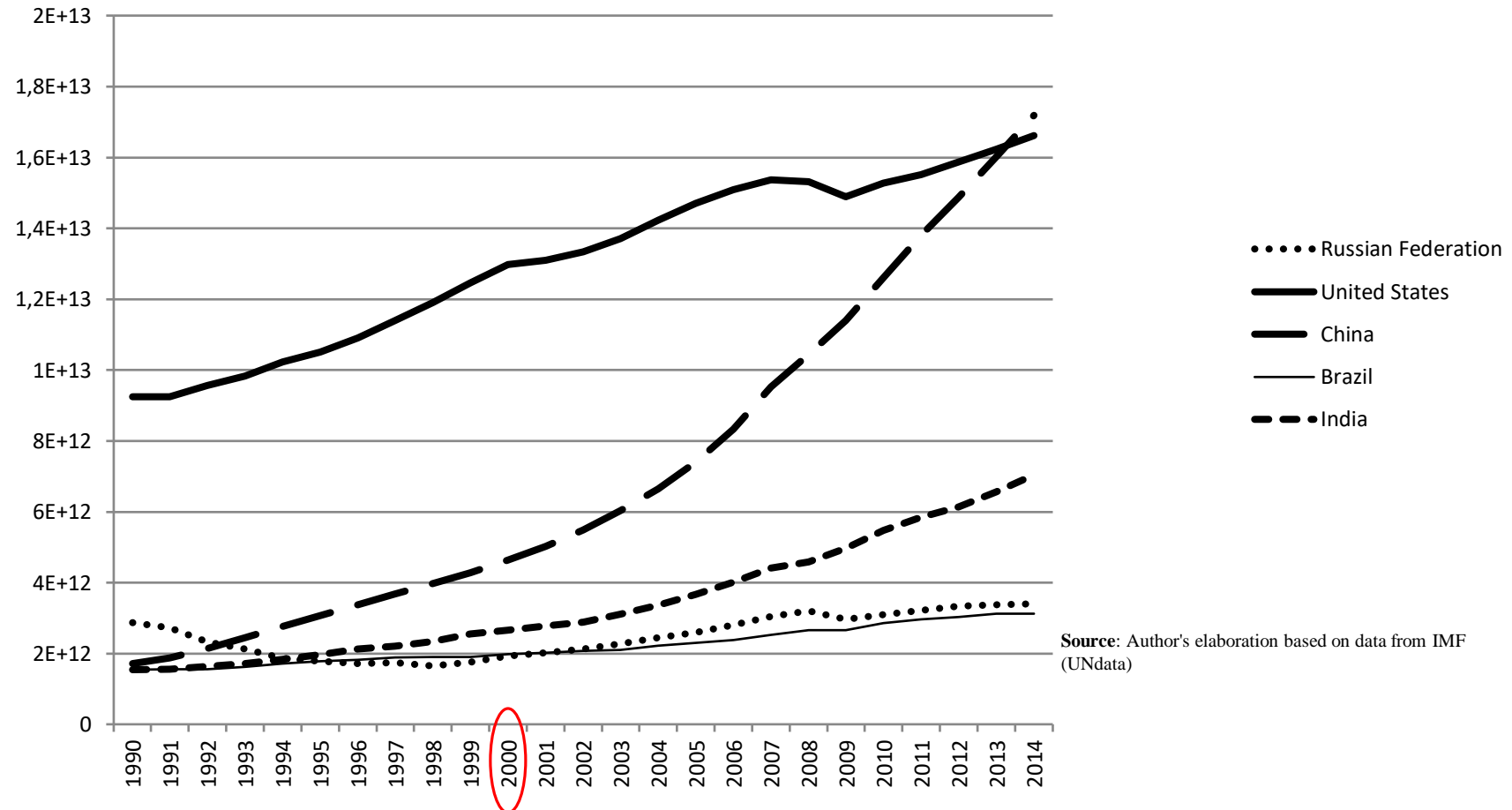
# New-nationalist Strategy (2008-present)

The “unsatisfactory” conditions of the “economic structure” generated by neoliberal policies in previous decades (reaching its peak with the 2008 crisis) have provided opportunities to strengthen the “power” of a populist political coalition, driving the emergence of a “new nationalism”.

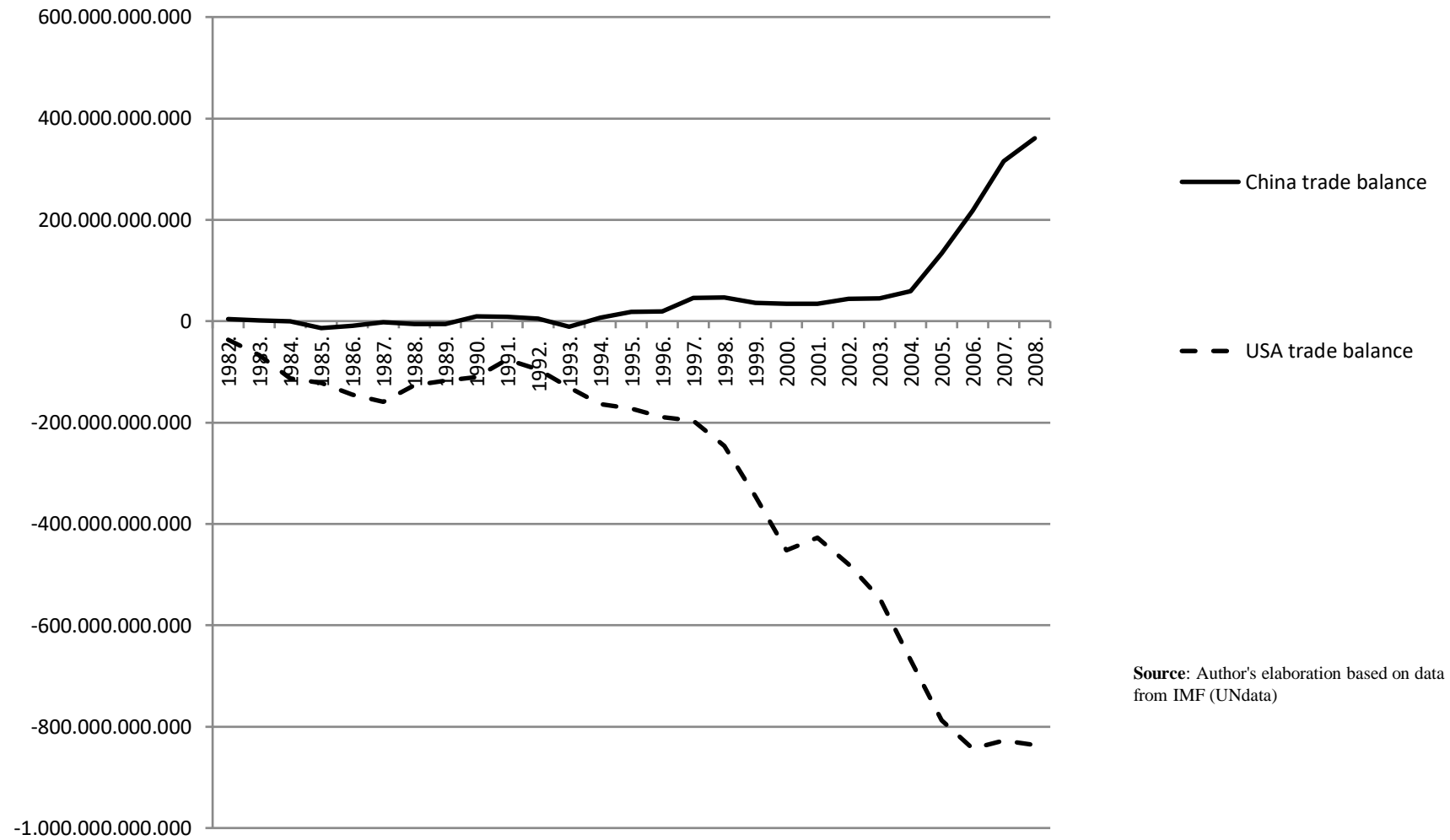
- **Two fundamental trends** characterizing the contemporary global economy may help explain the drift towards *Trumpism*:
  - digitalization and investments in ICTs (***Fourth Industrial Revolution***): some sectors have been able to keep up with the *Fourth Industrial Revolution* and technological upgrading, resulting in high-value-added sectors that pay high wages and salaries, pursue environmental and social sustainability, succeed at the international level, and demand trade liberalization (the Internet of Things, robotics, nanotechnology, quantum computing, information services, and e-commerce).
  - increasing international competition from emerging industrial powers (i.e., the BRICS), especially China: the most traditional sectors have been crushed by growing international competition with BRIC nations and have followed paths of rapid decline, containing wages and benefits for workers, producing unemployment and political discontent, and seeking protectionist policies from the government.
- As a consequence, economic and social disparities have profoundly expanded, and many Americans have seen adverse life conditions, eventually exacerbated by the 2008 crisis (and, later, by the coronavirus emergency), creating the conditions for a decline in approval of the neoliberal approach.

# Loss of effectiveness of the neoliberal strategy

BRIC and USA's GDP, PPP (constant 2011 international \$)



## USA - China Net Export (1982-2008) - US dollar



# New-nationalist Strategy (2008-present)

- Trump seized power by exploiting **antiglobalization discourses** and appealing to **dissatisfaction with the neoliberal regime**.
- Trump's new nationalist framework: increasing autonomy over the influence exerted by intermediary organizations (e.g., political parties, trade unions, and social movements); unpredictability; direct communication with society (through *Tweets*) with a predominantly **populist rhetoric** to reinforce his power (Fabry and Sandbeck, 2018).
- Concrete policy actions responding to the **short-term corporate interests of traditional industries, including the oil, coal, steel, defence and other traditional sectors** (Ferguson et al., 2018).
- **Cuts to corporate income tax, deregulation**, and strict control over federal spending, planning, for instance, a US\$ 3.6 trillion reduction over the next ten years, mainly from social programmes (Budget of the U.S. Government, 2018).
- Decisions to cut or terminate programmes relating to **social security**, “**healthcare reform**” and **environmental protection** (including the withdrawal of the United States from the Paris Climate Agreement of 2015).
- **Trade wars** against the US's main trade partners, including the EU, Canada, Mexico and China. These neoprotectionist actions have activated a spiral of reactions from such trade partners, reducing international trade flows (Dent, 2020), later further limited by the **coronavirus emergency**.

# Final remarks

- While in the midst of the pandemic emergency Trump lost the 2020 elections, leaving the US presidency to Joe Biden, the actual end of *Trumpism* will probably depend on the government's capacity to find **viable answers to economic disparities and social unrest**.
- The United States does not represent an exception: **international common trends** whereby **technological change, global competition and coronavirus** sharpen the **disparities, unemployment, marginalization** generate **populism sentiments and political instability**.
- The profound tensions that the world is currently facing highlight the need to encourage individual and collective commitment to a **solidarity order**, able to **give voice to the most disadvantaged social groups** through policies able to stimulate **capabilities** to actively **participate in economic and political processes**, avoiding marginalization.