

Center on Japanese Economy & Business ++ Japan Economic Foundation

Conference on

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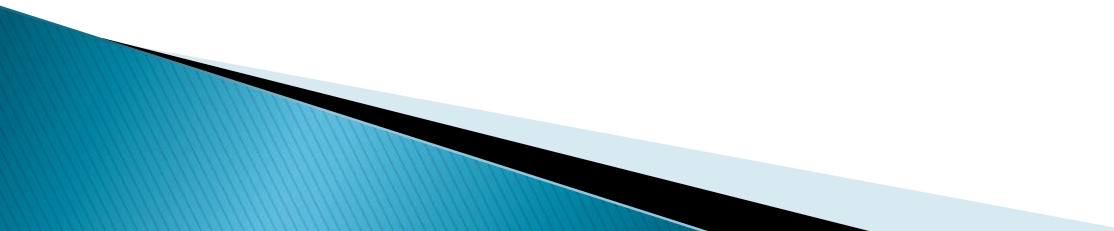
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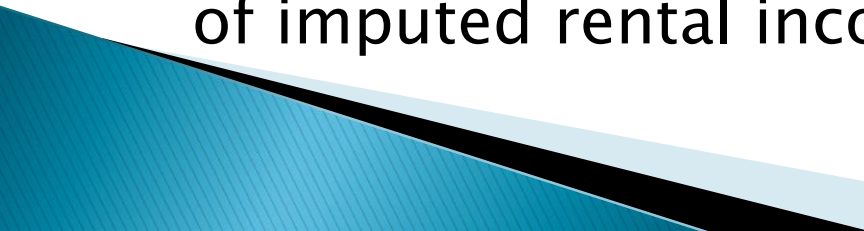
US Industrial Policy Takes Many Forms

- In extreme circumstances, to rescue major firms, the Feds may remove or install corporate managers (e.g., GM, AIG, WaMu).
 - The Feds sometimes provide cheap inputs (railways, roads, canals, electricity) to boost geographic areas.
 - The Feds historically supported agricultural research (land grant colleges); since WWII the Feds supported defense R&D with civilian spillovers (especially aerospace and DARPA); plus NSF, NIH and other direct R&D programs.
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But Financial Aids are the Federal Norm for Targeted Industrial Policy

- Via the tax code
 - Implicit or explicit loan guarantees
 - Direct loans or equity stakes
 - Price or volume supports
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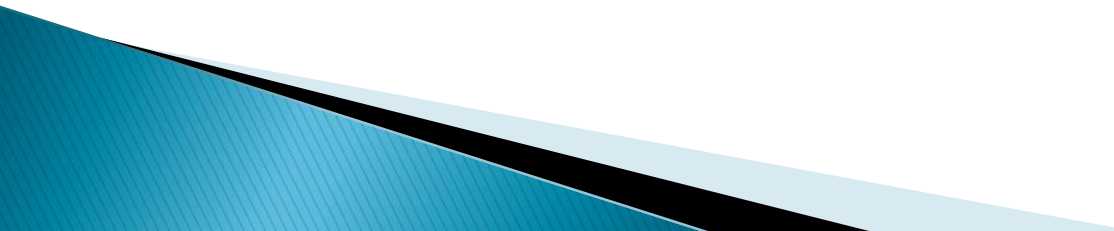
Tax Code Industrial Policy

- The code strongly favors “small” business by taxing partnerships, LLCs, LLPs, REITs, MLPs, Sub S, etc., as “pass-through” entities.
 - The code strongly disfavors large business, the US crown jewels, by taxing corporations on worldwide income at 35% statutory, the highest among advanced countries.
 - But special deductions, credits, and tax rates favor corporations engaged in R&D, mining, lumber, etc.
 - A major industrial policy is the mortgage interest deduction on homes, coupled with non-recognition of imputed rental income.
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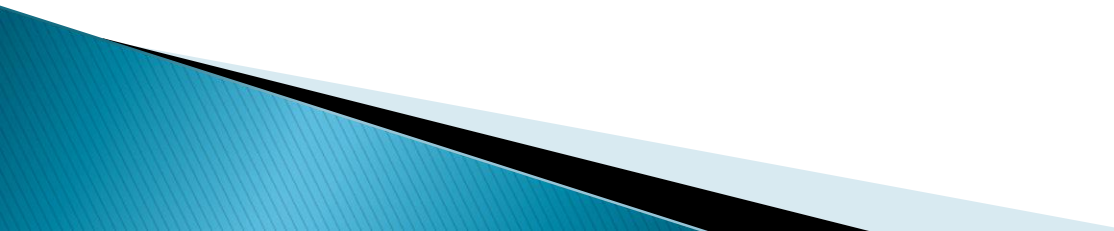
Implicit or Explicit Loan Guarantees

- Fanny and Freddie are the biggest recipients, implicit until the Great Recession.
 - Farmers and assorted rural co-ops have benefited since the Great Depression.
 - By comparison, the ExIm Bank, supporting large firms (“Boeing Bank”), is small potatoes.
 - The Federal Reserve has historically served as “lender of last resort” for failing financial firms, thereby providing an implicit guarantee for depositors.
 - Loan guarantees are sometimes targeted on “frontier” technology, e.g., renewable energy.
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Direct Loans & Equity Stakes

- Direct lending is often combined with explicit loan guarantees – e.g., farm loans, solar power loans, export credits.
 - Sometimes but rarely the Treasury may take an equity stake in a large but failing enterprise – GM and AIG are recent examples.
 - State and local governments may package loans with free land and tax breaks to attract promising firms.
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Price or Volume Supports

- Price supports are concentrated on agricultural commodities – wheat, corn, dairy, sugar, etc. The government buys what the market won't at the designated price.
 - Volume supports compel private parties to buy a “merit” product, usually blended with the commercial alternative – e.g., ethanol, solar and wind power. Obamacare does the same for health insurance.
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Rhyme or Reason?

- Targeted US industrial policy has dominant clusters:
 - Agriculture
 - Housing
 - Large failing firms
 - And a kitchen sink of lesser recipients.
 - Direct R&D programs plus tax code support are the foremost Federal contributions to frontier industries (Mazzucato, The Entrepreneurial State).
 - Otherwise the Feds are not particularly supportive of world class firms.
 - If industrial policy makes a difference to world class firms, the US is far behind.
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