The United States as an Active Industrial Policy Nation

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(based on joint research with Jiandong Ju and Yuankun Li)

- “After a decades-long love affair with laissez-faire policies, many governments – notably in developed countries – are increasingly seeking to shape their economies through tariffs, subsidies, public procurement, and more.”

  - Project Syndicate, Sept 24, 2024, introducing a collection of essays on industrial policies

- Is such characterization correct?
- Is the current interest really new?

Existing Research on industrial policies

paper	Text corpus	Identification Criteria	Selection methods	Time interval
Juhász, Lane, Oehlsen, and Pérez, 2023	GTA Database	Goals+ Scope	BERT Model Logit Model	2008-2020
Evenett, Jakubik, Martín, & Ruta, 2024	GTA Database	Goals + Industry +Actions	Manual	2023-
Criscuolo, Díaz, and Lalanne, 2023	policy documents	Actions + Scope	Manual	2019-2021

What do we do?

Construct a new database of US industrial policies from 1973-2022

- Sifting through more than 18,000 policy documents - 12,167 congressional acts and 6,030 Presidential Orders – during this period

- Using Artificial Intelligence tool (ChatGPT4o)
- (would have needed an RA a year and a half without sleep to do)

- **Three filters**

- A. Explicit mention of industry (“product”) names
- B. Explicit levers (subsidy, tax, tariff, procurement, etc) with non-negligible impact
- C. Broad in scope (rather than specific to individual firms/regions)

- Using a very strict/ conservative definition of industrial policy

- Excluding
- - recurring industrial policies in appropriation laws

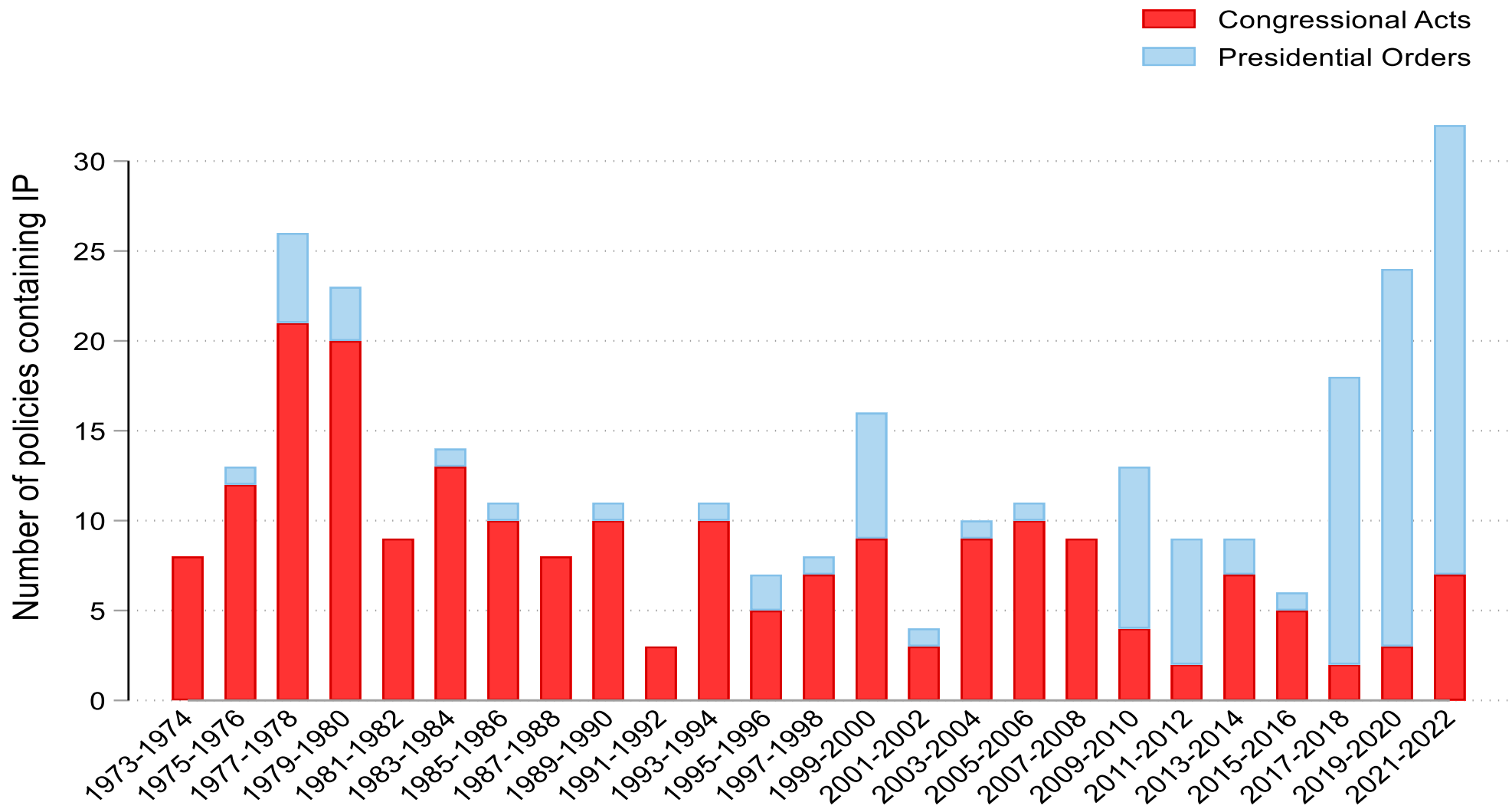
- - industrial policies in government procurement laws/orders that do not explicitly have a "buy-America" condition

- - policies that are advertised as correcting foreign unfair practices

- There are **312 industrial policies over 1973-2022**, or more than 6 per year, or more than 24 per presidential term on average

- Using broader criteria for industrial policy, there would be **1118 laws/PO's** containing Ips, or 20 per year, or 80 per presidential term

Laws and Presidential Orders with Industrial Policy 1973-2022



Features of US industrial Policies

1. The United States has always been an active industrial policy nation.

The statement that the US was not active until recently is not supported by the data.

2. No dry season

No congression session that does not pass some new industrial policy laws

No president that does not issue a new industrial policy order

Comparatively least active presidents were Ronald Reagon and George HW Bush

The most active president is Donald Trump, followed by Joe Biden

3. National security, very broadly defined, is more often cited as the rationale, than standard economic arguments such as externality or increasing returns to scale.

4. Many US industrial policies have an explicit expiration date.

5. A rich set of policy tools are used including subsidies, favorite tax treatment or regulation, "buy-America" procurement rule, tariffs or import quotas

	(1)	(2)	(3)	(4)	(5)	(7)	(9)	(10)
Congress	Year	President (Party)	Senate Majority Party	House Majority Party	CA(IP)Total	PO(IP) Total	CA(IP) Ratio (%)	PO(IP) Ratio (%)
93rd	1973-1974	Richard Nixon (R)	D	D	8	0	1.38%	0.00%
94th	1975-1976	Gerald Ford (R)	D	D	12	1	1.83%	0.51%
95th	1977-1978	Jimmy Carter (D)	D	D	21	5	3.32%	1.52%
96th	1979-1980	Jimmy Carter (D)	D	D	20	3	3.26%	1.08%
97th	1981-1982	Ronald Reagan (R)	R	D	9	0	2.23%	0.00%
98th	1983-1984	Ronald Reagan (R)	R	D	13	1	1.88%	0.62%
99th	1985-1986	Ronald Reagan (R)	R	D	10	1	1.51%	0.56%
100th	1987-1988	Ronald Reagan (R)	D	D	8	0	1.12%	0.00%
101st	1989-1990	George H. W. Bush (R)	D	D	10	0	1.54%	0.00%
102nd	1991-1992	George H. W. Bush (R)	D	D	3	0	0.51%	0.00%
103rd	1993-1994	Bill Clinton (D)	D	D	10	1	2.15%	0.32%
104th	1995-1996	Bill Clinton (D)	R	R	5	2	1.50%	0.70%
105th	1997-1998	Bill Clinton (D)	R	R	7	1	1.78%	0.43%
106th	1999-2000	Bill Clinton (D)	R	R	9	7	1.55%	2.60%

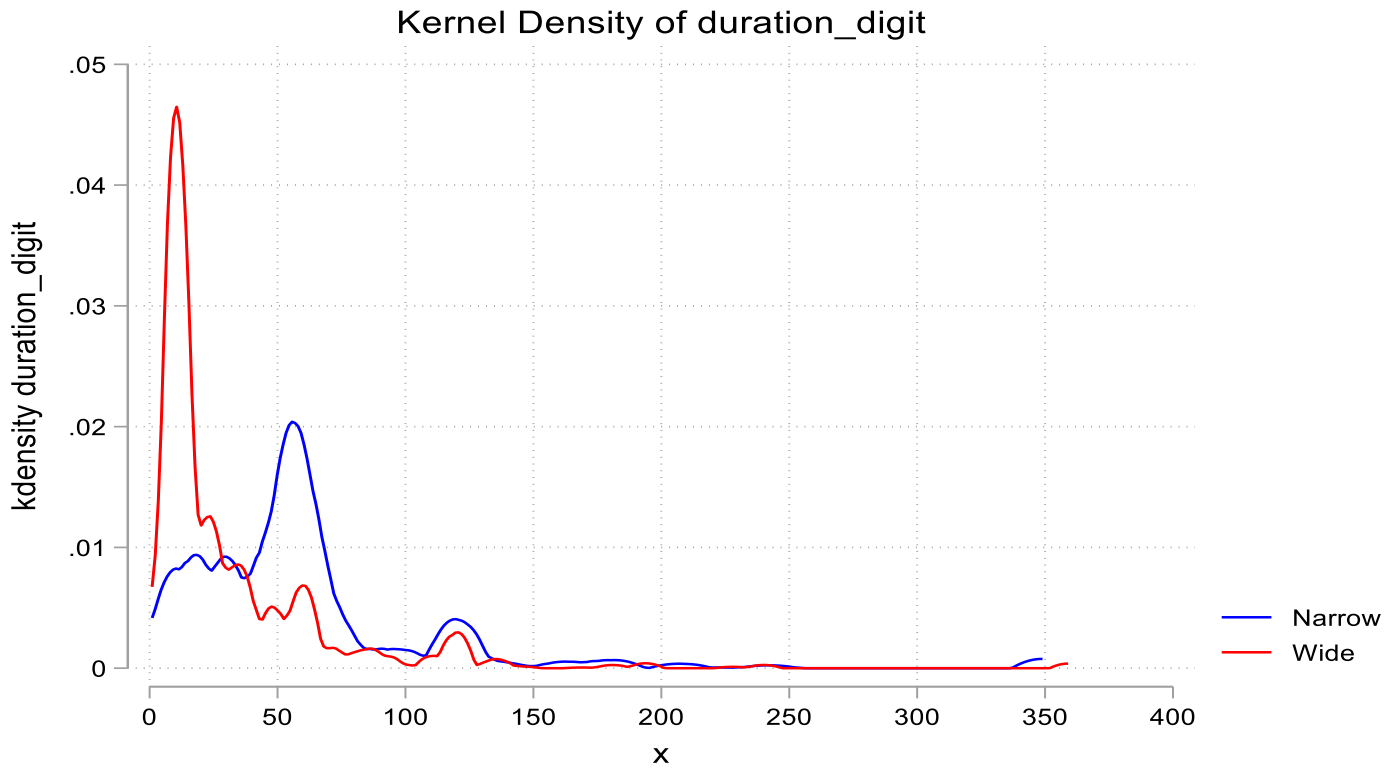
	(1)	(2)	(3)	(4)	(5)	(7)	(9)	(10)
Congress	**Year**	**President (Party)**	**Senate Majority Party**	**House Majority Party**	CA(IP)Total	PO(IP) Total	**CA(IP) Ratio (%)**	**PO(IP) Ratio (%)**
107th	2001-2002	**George W. Bush (R)**	D	R	**3**	**1**	0.80%	0.41%
108th	2003-2004	**George W. Bush (R)**	R	R	**9**	**1**	1.87%	0.42%
109th	2005-2006	**George W. Bush (R)**	R	R	**10**	**1**	2.14%	0.53%
110th	2007-2008	**George W. Bush (R)**	D	D	**9**	**0**	1.90%	0.00%
111th	2009-2010	**Barack Obama (D)**	D	D	**4**	**9**	1.16%	4.15%
112th	2011-2012	**Barack Obama (D)**	D	R	**2**	**7**	0.73%	4.00%
113th	2013-2014	**Barack Obama (D)**	D	R	**7**	**2**	2.05%	1.27%
114th	2015-2016	**Barack Obama (D)**	R	R	**5**	**1**	1.52%	0.49%
115th	2017-2018	**Donald Trump (R)**	R	R	**2**	**16**	0.49%	7.77%
116th	2019-2020	**Donald Trump (R)**	R	D	**3**	**21**	0.96%	9.29%
117th	2021-2022	**Joe Biden (D)**	D	D	**7**	**25**	1.80%	10.37%
Total	**1973-2022**				**206**	**106**	**1.69%**	**1.77%**

National security is very prominent as a rationale

	(1)	(2)	(3)	(4)
U.S. Industrial Policy by Objectives				
	Laws/POs containing	Percent (%)	Laws/POs by primary objective	Exclusive Percent (%)
National Security	180	57.5%	136	**43.5%**
Domestic Competitiveness	243	77.6%	128	**40.9%**
Climate Change and Environment	98	31.3%	32	10.2%
Others	66	21.1%	17	5.4%
Total	587	188%	313	100%

Many US Industrial Policies have an explicit expiration date

Definition	Total IP (Distinct)	No-Expiration IP Ratio (%)	Average Duration conditional on with expiration (Months)
Broad IPs	1,118	63%	32 months
Strict IPs	312	55%	59 months



Does the market regard such policies as significant for resource allocation?

1. a. Event-study: focusing on cumulative abnormal returns (CAR) over 3-day, 7-day, and 11-day windows.

filtering for U.S.-based companies listed on the NYSE, ASE, or NASDAQ

Companies in the financial, insurance, and real estate sectors (SIC codes 60-69) were excluded.

For CAs, we test market reactions based on three dates: the introduction date, pass date in congress, and the sign date.

For POs, since introduction dates are not available, we only use the sign date.

Abnormal returns (AR) are calculated using a market-adjusted model:

$$AR_{i,t} = R_{i,t} - Rm_t (1)$$

where $R_{i,t}$ is the daily raw return of firm i on day t and $Rm_{i,t}$ is the market return on day t. All event windows are centered on date 0. The CAR is calculated as

$$CAR_i[-T, T] = \sum_{t=-T}^{T} AR_{i,t} \ (2)$$

where CAR_i denotes the abnormal returns of firm i accumulated in the event window [-T, T].

Event Study Results on impact of industrial policies on Stock Prices

	(1)	(2)	(3)		(4)
	CAIP				POIP
Estimation Window: [-1,+1]	Introduction date	Passage Date	Law date		Sign date
Narrow Impact == +1	0.142***	0.206***	0.045		0.521**
	(0.049)	(0.059)	(0.056)		(0.204)
Obs	5,481	4,943	5,143		433
Wide Impact == +1	0.129***	-0.014	-0.008		0.393***
	（0.0269)	(0.027)	(0.027)		(0.127)
Obs	24,803	23,820	24,063		1,322

Impact of IPs on Firm Revenue (left) and Asset (right), 1973-2022

IMPACT == 1					
	(1)	(2)	(3)		(4)
		CAIP			POIP
Estimation Window: [-1,+1]	Introduced date	Passed date	Law date		Sign date
Narrow Impact	**0.142*** **	**0.206*** **	**0.045**		**0.521** **
	(0.049)	(0.059)	(0.056)		(0.204)
Regular Appropriation	**-0.086***	**-0.0518**	**0.265*** **		
	(0.0536)	(0.058)	(0.0588)		
Intermediate Duty	**0.462*** **	**0.308*** **	**-0.114**		**0.471** **
	(0.139)	(0.095)	(0.131)		(0.24)
Specific Trade	**0.261** **	**-0.393*** **	**-0.048**		**0.632*** **
	(0.115)	(0.127)	(0.109)		(0.1969)
Government Purchase	**0.175*** **	**-0.050**	**-0.066**		**0.571**
	(0.041)	(0.109)	(0.042)		(0.358)
Regulation	**0.237*** **	**-0.082**	**-0.032**		**0.664*** **
	(0.056)	(0.058)	(0.057)		(0.261)
Due Renew	**-1.28*** **	**-0.343**	**-0.103**		
	(0.250)	(0.215)	(0.222)		
Target Ambiguity	**-0.247***	**-0.296** **	**-0.22***		
	(0.136)	(0.136)	(0.1217)		

Summary

- The US is always an active industrial policy nation
  - It does not have a historical, intellectual, or ideological opposition to industrial policy in practice

- US policies affect resource allocation significantly.

- National security is an important rationale.
- Many industrial policies have an explicit expiration date.

- Welfare effects require separate and careful evaluations.