
Intellectuals and Industrial Policy

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That, with the application of engineering techniques, the direction of all forms of human activity according to a single coherent plan, should prove to be as successful in society as it has been in innumerable engineering tasks is too plausible a conclusion not to seduce most of those who are elated by the achievement of the natural sciences.

F.A. von Hayek, "The Intellectuals and Socialism", 1949

The Intellectuals and Industrial Policy

- ❖ *Research and development*: ought to play a far bigger role in production.
- ❖ *Criticism of market's imperfections*: free-market arrangements are “wasteful,” *vis-à-vis* benevolent planning.
- ❖ *Self interest*: industrial policy aiming to “direct” economic development, somebody should do the “directing.”

Industrial policy in three points

- ❖ *Picking winners*: experts can decide what technology to bet on better than market investors.
- ❖ *Better time horizon*: if market investors look for an “exit” in a certain time, government can instead bet on a new technology “for all the time which is needed.”
- ❖ *Developing areas*: incentives and subsidies can turn underdeveloped areas and regions into industrial powerhouses, “fixing” imperfect market signals.

An ‘insane idea’?

- ❖ Franco Debenedetti, chairman of Istituto Bruno Leoni, calls industrial policy “an insane idea”.
- ❖ He claims that from *picking winners* you quickly move to *save losers*.
- ❖ Industrial policy is not a nursery but a leper hospital.
- ❖ Public choice criticism: where are political incentives?



The Heyday of Italian Industrial Policy



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The true Italian looks through Salmoiraghi **glasses** (IRI), consumes **electricity** from Finelettrica (IRI), listens to **radio** shows from RAI on Cetra **records** and **advertisements** from Sipra, smokes **cigarettes** from the tobacco State monopoly, makes **telephone** calls through IRI, eats **salt** from the State monopoly, **bananas** from the State monopoly, drinks mineral **water** from State-owned bottlers, entrusts his **savings** to IRI banks, reads newspapers supported by **IRI** advertisements, **ENI**, **Monopolio**, **Totocalcio** and further supported by the subsidies from the **Cellulose Agency**, travels on the State-owned **railways**, flies with **Alitalia**, gets a degree in State universities and is buried in public graveyard.

Sergio Ricossa, *Come si manda in rovina un paese*, 1995

Bagnoli, Naples



Termini Imerese, Palermo



Marcianise, Caserta



The brilliant results

- ❖ Overwhelming government-owned business has crowded out private investment and *private creativity*.
- ❖ Subsidies have played with market signalling, attracting investments to places they shouldn't have been made — at least at those conditions.
- ❖ Over 60% of the production being in government hands, Italy had a hard time in privatising and, clearly, made some mistakes, which were due to the lack of a proper “culture of boundaries” between the state and the private sector.

“The Entrepreneurial State”

- ❖ And yet industrial policy is now coming back in fashion, by and large thanks to Mariana Mazzucato’s *The Entrepreneurial State*.
- ❖ To sing the praises of “industrial policy”, Mazzucato’s strategy is to focus on the United States. Proving that there is more “industrial policy” behind their industrial success than is commonly acknowledged would show the need of government in providing a “mission-oriented directionality” to R&D activities. In contrast, Mazzucato does not deal with countries that have adopted a self-styled “industrial policy” such as Italy.
- ❖ American-style “industrial policy” is supposed to prove that it is government that bets hard on new technologies, thereby shaping the markets of the future. Government is often the most far-sighted and the less risk-averse of all the investors. “Industrial policy”, rather than free markets, deserves to be credited with the development of some of the most exciting contemporary technologies: from life-saving drugs to the iPhone.



If you were successful, somebody along the line gave you some help... Somebody helped to create this unbelievable American system that we have that allowed you to thrive. Somebody invested in roads and bridges. If you've got a business - you didn't build that. Somebody else made that happen.

(Barack Obama)

OK, you didn't build that but...

- ❖ But did the government build that?
- ❖ Mazzucato's key evidence:
 - ❖ Small Business Innovation Research: the federal govt requires all govt agencies with a budget over 100 million dollars to spend 2.5% (now 2.8%) of their own budget to promote innovation by small and medium businesses;
 - ❖ iPhone: touch screen was developed by Wayne Westerman, who had a PhD scholarship awarded by the National Science Foundation;
 - ❖ DARPA: military spending as the origin of the Internet.

Two types of argument

- ❖ Jeff Bezos drives to work every day on government-financed roads. *So we should thank the government for Amazon!*
- ❖ Sometimes in the past some government agency invested in some research programme which produced quite unexpected applications, once it became available to the private sector.





IDENTIFICATION FAIL

you are not in india

To be sure...

- ❖ Military spending had important spill-over effects. *The Entrepreneurial Army?*
- ❖ The link between scientific research and industrial production is key to a productive, modern economy. *But is that something that could be planned “a priori”?*
- ❖ None of us did really “build that” on her own. Even the most original of geniuses has strong debts with society. *But should she send a “thank you note” and to whom, exactly? Are “society” and “government” the same?*

The intellectual hybris

- ❖ The intellectual hybris behind this way of thinking is the *unceasing debasement of the consumer*.
- ❖ Modern production is a complex phenomenon in which sheer technological innovation doesn't operate on its own: it interacts with entrepreneurial vision and consumers' feedback.
- ❖ “Compared with the work of the engineer that of the merchant is in a sense much more ‘social,’ i.e., interwoven with the free activities of other people” (Hayek, *Scientism and the Study of Society*, 1942).
- ❖ We don't want “novelties” per se: we want novel products that make our lives easier and better.

Thank you for your attention

Alberto Mingardi

Director General, Istituto Bruno Leoni

Twitter @amingardi

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