

Ten Lessons for Industrial Policy and One Chart

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A Definition of Industrial Policy: Government interventions that pursue policy objectives by favoring or disfavoring specific technologies, industries, companies, and economic activities.

Observation: Industrial policies create “special interests” that benefit from the policy and lose out when it ends. Naturally, these interests organize politically to preserve their benefits. As a result, industrial policies are self-entrenching within a democratic political process.

Lesson 1: Once implemented, industrial policies are hard to kill. That also holds when they fail, when they are not cost effective, and when they outlive their usefulness.

Observation: No matter how carefully the experts design an industrial policy, it gets mangled and distorted as it passes through the political process of enactment and implementation.

Lesson 2: Even sound, well-conceived industrial policies usually underperform in practice, because they are not ultimately designed, implemented, and operated as conceived.

Observation: Industrial policies are often rife with unintended harmful consequences. When commercial concerns produce harmful consequences, firms lose money and stop. When public sector initiatives yield costly consequences, they go on and on. See Lesson 1.

Lesson 3: New proposals for industrial policy warrant rigorous scrutiny, great humility about unintended consequences, and a sober recognition of Lessons 1 and 2.

Observation: The political process is ill equipped to assess performance against vague, open-ended objectives (“beat China,” “win the future,” “win the war” on this or that). Performance assessment against such objectives is hard even for experts, let alone political leaders and voters. As a result, the political process is slow to recognize policy failures, to verify why they happened, and to respond with corrective actions.

Lesson 4: Be especially wary of industrial policy initiatives in pursuit of vague, open-ended objectives that lack clear yardsticks for success and failure.

Observation: Despite the challenges, U.S. history offers some examples of industrial policies that largely achieved their stated objectives. Here are three:

- The Manhattan project
- Operation Warp Speed
- JFK's pledge to put a man on the moon

Lesson 5: Successful industrial policies often involve clear, easy-to-grasp objectives for which success or failure is evident. It helps if the policy naturally expires.

Observation: It's often claimed that some countries accelerated their economic development through well designed industrial policies. Japan, South Korea, Singapore, and Taiwan are often held up as exemplars in this regard.

It doesn't follow that industrial policy will work for the United States. Why not?

- Our “enabling infrastructure” is inferior in key respects – e.g., a scarcity of high-quality primary and secondary schooling and high-quality job training programs.
- The United States is at a different stage of economic development.
- As a much larger share of the world economy, the U.S. cannot succeed by excelling in a few sectors and exporting from those to the rest of the world.
- We must implement industrial policy with our government, not theirs. (Lesson 2)

Lesson 6: Successful industrial policies are not readily portable across time and space.

Observation: Other aspects of our “enabling infrastructure” are best in class, or nearly so: Our universities, capacity for basic research, innovation ecosystem, capacity to allocate capital at scale to promising new technologies and commercial ventures and, historically, our ability to attract STEM and entrepreneurial talent from the rest of the world are enormous strengths.

Lesson 7: The United States should leverage its strengths in pursuing its national security objectives.

Lesson 8: Import tariffs are poorly suited for most national security objectives.

- They distort multiple production and consumption margins in the pursuit of national security objectives that often pertain to concerns about production capacity (not production itself) and resilience in the face of supply disruptions.

Example: Steel tariffs.

- Tariffs generate ill will among trading partners and invite retaliation, which causes additional harm to our economy and theirs.
- Tariffs often run afoul of U.S. trade agreements.
- Tariffs imposed on dubious national security grounds weaken the credibility and value of future trade agreements — including President Trump's "deals."

Observation: The US has many “negative” industrial policies that damage our economic performance and directly or indirectly weaken our national security.

Lesson 9: Fix or end our many broken and negative industrial policies.

Examples:

- Regulations and permitting practices that impede new energy infrastructure, factories, and housing.
- A slow, bureaucratic weapons acquisition process and defense procurement system.
- Occupational licensing restrictions, policy uncertainty, ...

Observation: Heavy reliance on industrial policy fosters a rent-seeking outlook among business executives because their success then becomes dependent on anticipating and shaping government policies, and on remaining in the good graces of government officials.

This dynamic is on vivid display in the second Trump administration. Watch the 60-second video clip at https://www.washingtonpost.com/video/politics/at-white-house-dinner-tech-ceos-cant-stop-thanking-trump/2025/09/04/2d1e722c-d771-4d40-b1c4-e5fcdac3957f_video.html

Lesson 10: If ring kissing becomes the path to commercial success, the ranks of senior business leaders will be populated with world-class ring kissers rather than men and women who owe their success to better products, efficient operations, and the commercialization of cutting-edge technologies.

Where the United States Could, in Principle, Benefit from New or Better Industrial Policies

1. Munitions production, capacity, and stockpiling
2. Shipbuilding production and capacity
3. Defense acquisition and procurement reform
4. Chokepoints:
 - a. Data collection, dissemination, and analytic assessments of risks and vulnerabilities. See Spence (2026).
 - b. Active policy responses to ensure economic resilience, deter strategic abuse by adversaries, and safeguard national security.
5. Reliability and security of infrastructure systems for water, energy, communications, transport, and data storage and protection.
6. Immigration as a wellspring of innovation and entrepreneurship – reinvigorating one of our traditional strengths.

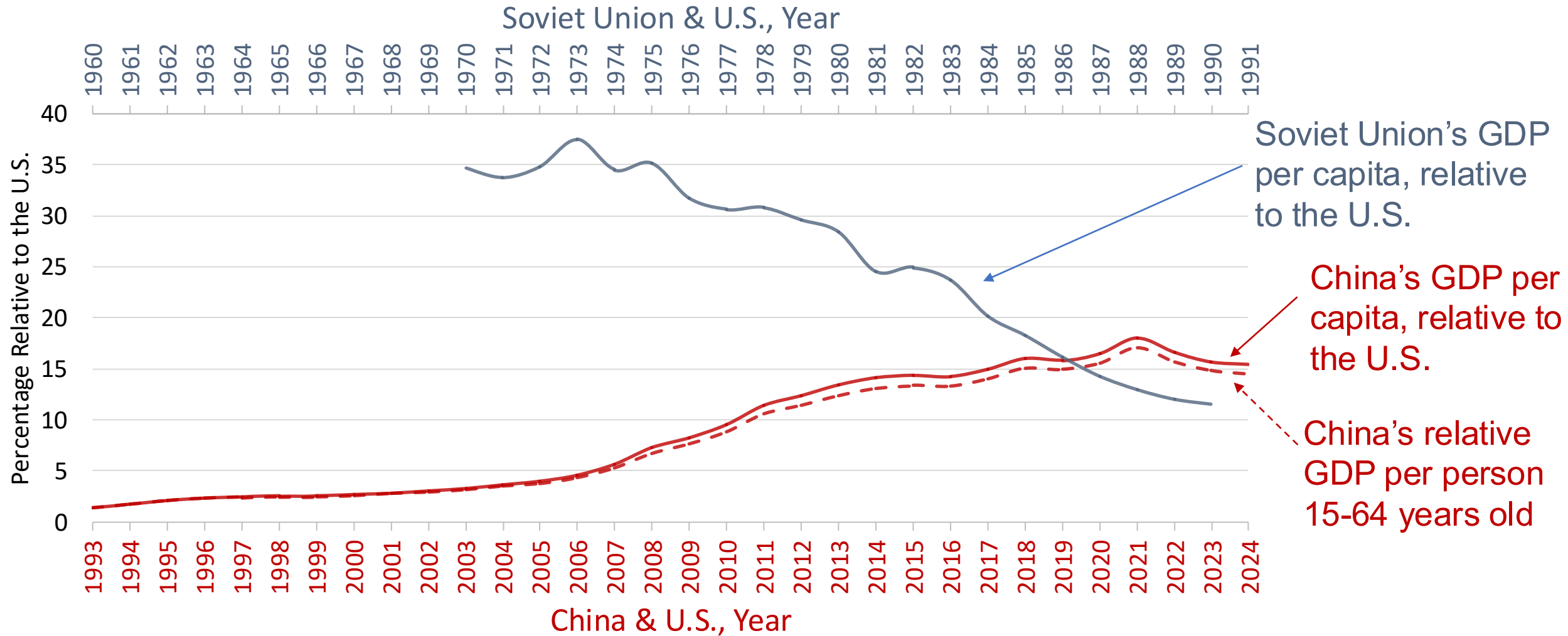
The Neglect of Industrial Policy Failures:

See written remarks.

Subtext of Public Discourse around Industrial Policy and National Security

See the next slide and the handout.

GDP per Capita at Current Exchange Rates Relative to the U.S., Soviet Union (1960-1991) and China (1993-2024)



Sources: World Bank, *World Development Indicators* (China-U.S. comparison), data.worldbank.org/indicator/NY.GDP.PCAP.CD ; United Nations Statistics Division, *UNdata* (Soviet Union-U.S. comparison), unstats.un.org/unsd/snaama/Basic.

Note: GDP per working-age person is calculated as total GDP at current exchange rates divided by the population ages 15 to 64 for each country and year. All other indicators are reported directly from the original sources.