



Discussion of: A New Strategic Industrial Policy Framework for Portugal

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Authors propose four steps aimed at building a new IP framework

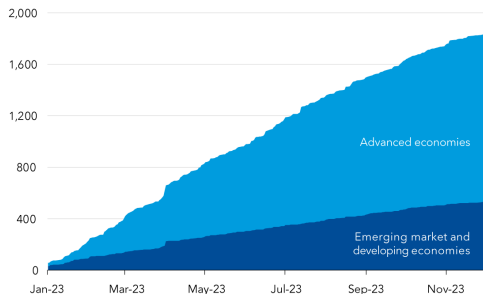
1. *Changing the mindset*: reform the scope and eligibility criteria of current IP-like policies; make them more flexible; eliminate perverse incentives that constrain growth; make full use of policy space; expand policy horizons; replace ad-hoc programs with standing facilities
2. *Horses for courses*: government should fill in private financing gaps; generate financing scale; facilitate corporate restructuring; promote B2B and university linkages
3. *Super-Additionality*: exploit policy complementarities and generate positive feedback loops; better use of public procurement processes
4. *Making Strategic Choices*

IMF: “Industrial policy is back...”

New measures

Advanced economies have been more active users of industrial policies in 2023.

Number of industrial policy measures implemented in 2023



Source: Evenett and others (2024); IMF staff calculations.

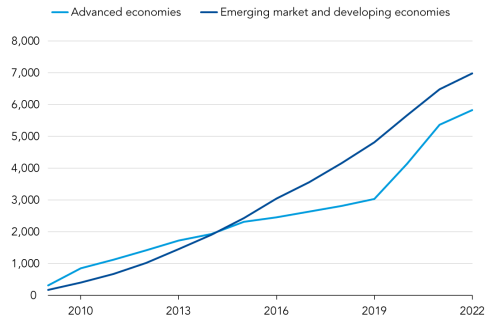
Note: Cumulative number of industrial policy measures starting from January 1, 2023. It is possible that the gap between AEs and EMDEs in resort to subsidy interventions will narrow over time as reports from the latter tend to be published with a lag.

IMF

Rising subsidies

Between 2009 and 2022, subsidies were more prevalent in emerging markets and developing economies.

Number of subsidy policies in force



Source: Global Trade Alert; IMF staff calculations.

Note: Cumulative number of subsidy policies starting from January 1, 2009.

IMF

IMF: “...but the bar to get it right is high”

- IP has many potential benefits, clearly highlighted in the supporting documentation
- ...but it also entails costs to consumers, taxpayers, etc.
- Costs should be weighted against benefits to decide whether IP is worth pursuing
- Requires quantification of costs and benefits, some of which are hard to quantify
 - Hard to quantify costs: misallocation, corruption
 - Hard to quantify benefits: climate change, national security

Juhasz, Lane & Rodrik (2023): *The New Economics of Industrial Policy*

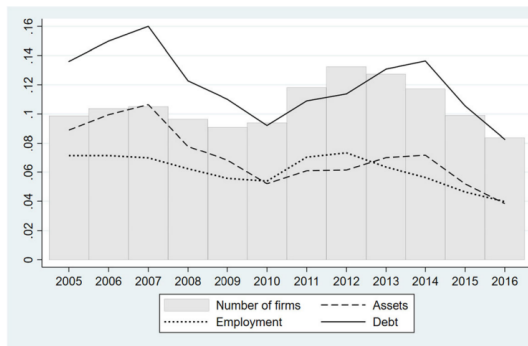
1. **Informational constraints** that result in inefficient targeting by the government
2. **Political capture**, through which self-interested actors steer governmental choices of which sectors to target

Other costs:

1. Direct fiscal costs to taxpayers (subsidies, foregone revenue, etc.)
2. Costs to consumers (higher prices due to protectionism/infant industry promotion)
3. Misallocation of inputs in the economy: capital allocation distorted towards targeted sectors and away from untargeted ones with negative effects on productivity

Costs of IP: Zombie Firms

Misallocation and poor targeting of IP can amplify the zombie firm phenomenon, pervasive in Portugal



Source: Carreira, Teixeira & Nieto-Carrillo (2022)

Juhasz, Lane & Rodrik (2023): *[...] the ultimate test is not whether governments can pick “winners”, but whether they have (...) the ability to let “losers” go*

The authors make a strong case for IP in Portugal, but:

- The devil is in the details! Some of the proposals are often publicly debated, but implementation is seen as costly as it would require significant legislative changes (i.e. cooperation between private sector and universities)
- Costs should be appropriately quantified and weighed against benefits, given how implementations of IP in Portugal are prone to:

1. be captured by special/political interests
2. amplify misallocation by poorly targeting resources

These two costs could be minimized by an independent and well-managed Banco do Fomento, which can also help compensate for the lack of depth of capital markets

- but is this even feasible?
- **Broader question:** Should IP be pursued at the member-state vs. EU level? IP mostly run at the federal level in the US