industrial policy

Definition
An industrial policy is a government-sponsored economic growth programme that encourages development of, or investment in, a particular industry. Industrial policies may target local, regional or national development of an industry by any number of means.

Abstract
Scholars have long treated industrial policies as temporary expedients that help developing economies to catch up with rivals. A growing body of research suggests that public policy interventions targeting particular industries play important but very different roles across developed economies. Industrial policies can substitute for market coordination, can supplement capitalization by private investors and can be used to jump-start infant industries. Understanding the variety of industrial policies, and their roles in modern economies with different systems of government coordination, private initiative, research and development, labour cooperation and training will be increasingly important for strategic management scholars.

An industrial policy is a government-sponsored economic growth programme that encourages development of, or investment in, a particular industry. Industrial policies may target local, regional or national development of an industry by any number of means. Industrial policy instruments are often directed at ‘infant’ industries, but may also bolster mature industries or help them to implement new technologies. The most visible industrial policies include public investment in industry, public procurement policies and tax relief for private investors. Less visible policy instruments include tax incentives, foreign direct investment incentives, intellectual property rights programmes, fiscal policies, trade policies, labour market policies, and science and technology policies (Cimoli, Dosi and Stiglitz, 2009: 1–2).

Early studies: industrial policy as a temporary intervention for economic development
In the heyday of laissez-faire theorizing, industrial policy was thought to be a strategy for developing economies to catch up with developed economies. In academic research, the role of industrial policy was recognized in the 1950s by development economists, who suggested that the experience of second-wave industrializing countries in Europe would be repeated in underdeveloped countries in Asia, Africa and Latin America. Economists saw that the promotion of key sectors through state intervention was important for overcoming economic backwardness. Alexander Gerschenkron (1962) argued that late-developers like Germany and Russia did not go through the same stages of development that Britain went through, but leapt ahead by using the state to provide the missing prerequisites of economic growth. Gerschenkron suggested that each stage of economic development may require a particular set of policies. Albert Hirschman (1958) argued that economic development can be achieved not by mobilizing an entire economy at once but, rather, by mobilizing key strategic sectors that can pull the rest of the economy along with them. Hirschman referred to this ‘pushing’ and ‘pulling’ process as the creation of ‘forward-and-backward linkages’ in industrial development. Industrial policies favouring key industries were integral to initiating the process.

The strategic role of the state in economic development was advocated by post-war proponents of import substitution industrialization (ISI) in Latin America (O’Donnell, 1973). ISI was designed to reduce the foreign dependency of late-developing countries through local manufacturing. Industry nationalization, subsidization of vital industries and protectionist trade policies were the core policy instruments. ISI does not eliminate imports, but rather, alters the type of imports by replacing some goods with domestically produced substitutes. The objective is to lift the economy to a higher stage by developing manufacturing capacity and moving from export of raw materials to production, and eventually export, of manufactured goods. ISI policies were seen as a temporary measure to jump-start developing economies.

The role of the states in promoting economic development in the US was recognized by economic historians by the 1950s. They chronicled state and local promotion of banking, canal construction and railway building in the first half of the 19th century (Handlin and Handlin, 1947; Goodrich, 1949, 1960). Even after many of the American states passed constitutional amendments prohibiting direct government aid to industry in the latter half of the 19th century, state and local governments continued to promote industrial development through incentives for private industry to invest in specific areas and industries (Graham, 1992). These economic historians did for the United States what Gerschenkron
(1962) would do for Europe, showing that states had taken charge of ensuring funding of early industries.

Recent studies: persistence of industrial policy
Whereas development economists and economic historians saw industrial policies as a temporary expedient countries needed to catch up, studies of advanced economies have confirmed that they continue to use industrial policy instruments of various sorts. The early literature on industrial policy sought to identify the ideal role of the state in economic development, but recent studies suggest that a number of different approaches have been effective. There is no single industrial policy or course of action that can deliver economic development most effectively across countries, industries or firms.

At the country level, in economic sociology and comparative political science an emergent camp contends that capitalism may take a variety of different forms rather than conforming to a single ideal type, and that state industrial policy contributes to this variety. Sociologists working in the ‘national business systems’ tradition argue that nations have broadly different approaches to dividing the work of entrepreneurship, capital allocation, bank regulation, labour market regulation, workforce training, industrial relations and public procurement, and that public policies in each of these domains can be used to promote particular industries (Whitley, 1992). Political scientists working with the ‘varieties of capitalism’ framework argue that countries develop different systems for managing firms and labour markets (Hall and Soskice, 2001). Liberal market economies, epitomized by the United States, coordinate economic activity through markets and corporate hierarchies. Coordinated market economies, epitomized by Germany, coordinate economic activity more through non-market mechanisms, such as collective bargaining between unions and employers. Varieties-of-capitalism scholars challenge the mainstream neoclassical approach to government–market relations, suggesting that countries have different sets of institutions to manage problems of accessing capital, motivating employees, ensuring appropriate skill levels and bargaining over wages. Across different types of ‘national business systems’ or different ‘varieties of capitalism’ the state plays different roles in the economy, and sometimes roles that belie national beliefs about state–industry relations. In the United States, for instance, despite long-standing opposition to public funding of industry, generous military procurement policies have been used deliberately to promote industries such as aircraft and electronics (Hooks, 1991; Graham, 1992). Others argue that national economic systems depend on different sorts of government leadership. Zysman (1983) argues that the role of the state in coordinating financial systems shapes industrial development in persistent ways. Dobbin (1994) shows that distinct national patterns of industrial policy reflect broader national political cultures. Institutional logics of political order were transferred to the project of achieving economic order in Britain, France and the United States.

Distinct patterns of industrial policy and corporate organization persist over time and shape the international competitiveness of firms. Guillén (2001) shows that firms in Argentina, South Korea and Spain diverged in their patterns of behaviour, organizational form and growth, and that differences persisted as they became more integrated into the global economy. He suggests that social and economic organization is informed by historically developed logics, which are changed only with difficulty. Broad institutional blueprints at the national level define which actors are legitimate participants in the economy, how they relate to one another and how they relate to the state. These blueprints offer comparative advantages in international markets to different sorts of firms and industries.

At the industry level, political scientists from the varieties-of-capitalism camp argue that countries and firms play different roles in the global economy. They document that national firms compete in world markets following different templates, building on their countries’ institutional strengths, and depend on very different government roles. Thus German, French, Japanese and American firms lead in different arenas in the global economy, but rarely in the same industries and market segments. German firms excel at high-quality, engineering-intensive industries such as specialty chemicals, advanced machine tools and luxury cars (Streeck, 1991); French firms specialize in large-scale high-technology systems engineering and construction projects such as high-speed trains, aircraft and space hardware, and nuclear power (Storper and Salais, 1997); Japanese firms excel at assembled products, from consumer electronics to household appliances to cars (Gerlach, 1992);
American firms are innovative in the fields of software engineering and biotechnology (Storper and Salais, 1997). These national differences are shaped in large measure by different approaches of the respective nation-states to encouraging entrepreneurship, capitalizing industry and promoting technological development.

At the firm level, comparative organizational sociologists have shown that firms pursue different modes of economic action and adopt different organizational forms depending on their home countries’ dominant industrial policies. Hamilton and Biggart (1988), for example, found variation in corporate forms in South Korea and Taiwan. Rapid and successful economic growth in Korea has been dominated by chaebol, enormous family-owned conglomerates. In contrast, Taiwanese economic growth has been achieved by small to medium-sized family firms. Hamilton and Biggart suggest that political and cultural embeddedness explains the differences between Taiwanese and Korean firms. Korean industrial policy was implemented by a strong, centralized state that strategically supported the formation of large conglomerates as its partners in economic development. By contrast, the Taiwanese state did not develop strong relationships with corporations, but built large state-owned enterprises that dominated capital-intensive, upstream industries and encouraged the growth of competitive, small and medium-sized enterprises in other sectors (Wade, 1990).

Implications for strategic management

In the past, industrial policy was regarded as a temporary measure that nation-states use to promote certain industries or to catch up with more advanced economies. It is now regarded in some quarters as more than a temporary expedient. The role of the state in industrialization in some of the East Asian economies has bolstered the idea that a developmental state can play a positive role at every stage of development.

Contrary to widespread expectations, globalization has not induced convergence towards a single approach to promoting industry, but has stimulated a variety of institutional responses. Even within advanced industrialized countries, significant differences exist in the nature of industrial policy and its role in the economy. In economic sociology and comparative political studies, scholars now contend that baseline institutional differences across nation-states contribute to this variety. Given that national industrial policy differences appear to be here to stay, strategic management scholars will need to build industrial policy differences into their models of strategic corporate behaviour. Strategic action in an economy like Korea’s, with state-designated national champions in key industrial sectors, may look very different from strategic action in an economy like Argentina’s, with less government coordination but significant private-sector coordination of industry. As a first step, strategic management scholars might establish the scope conditions for their theories, perhaps using the typologies offered by the varieties-of-capitalism literature (Hall and Soskice, 2001) and the national business systems literature (Whitley, 1992).

SOOHAN KIM AND FRANK DOBBIN

See also

FOREIGN DIRECT INVESTMENT (FDI) AND ECONOMIC DEVELOPMENT; INSTITUTIONAL ENVIRONMENT; INSTITUTIONAL THEORY; MULTINATIONAL ENTERPRISES (MNEs) AND NATION STATES; PUBLIC POLICY: STRATEGY IN THE PUBLIC INTEREST; SOCIOLOGY AND STRATEGY

References


Hamilton, G. and Biggart, N. 1988. Market, culture, and authority: a comparative analysis of management and
organization in the Far East. American Journal of Sociology 94 (supplement), S52–S94.