

Dynamic effects of Industrial Policies amidst Geoeconomic Tensions

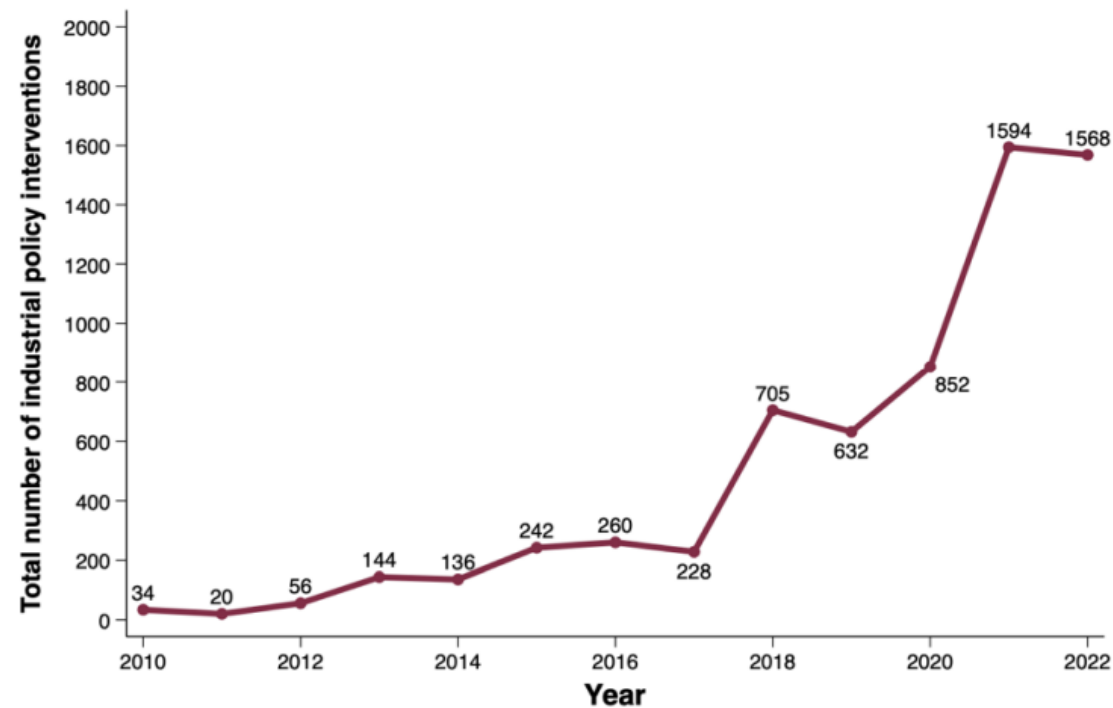
Discussion

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Remark 1: Increasingly relevant theme

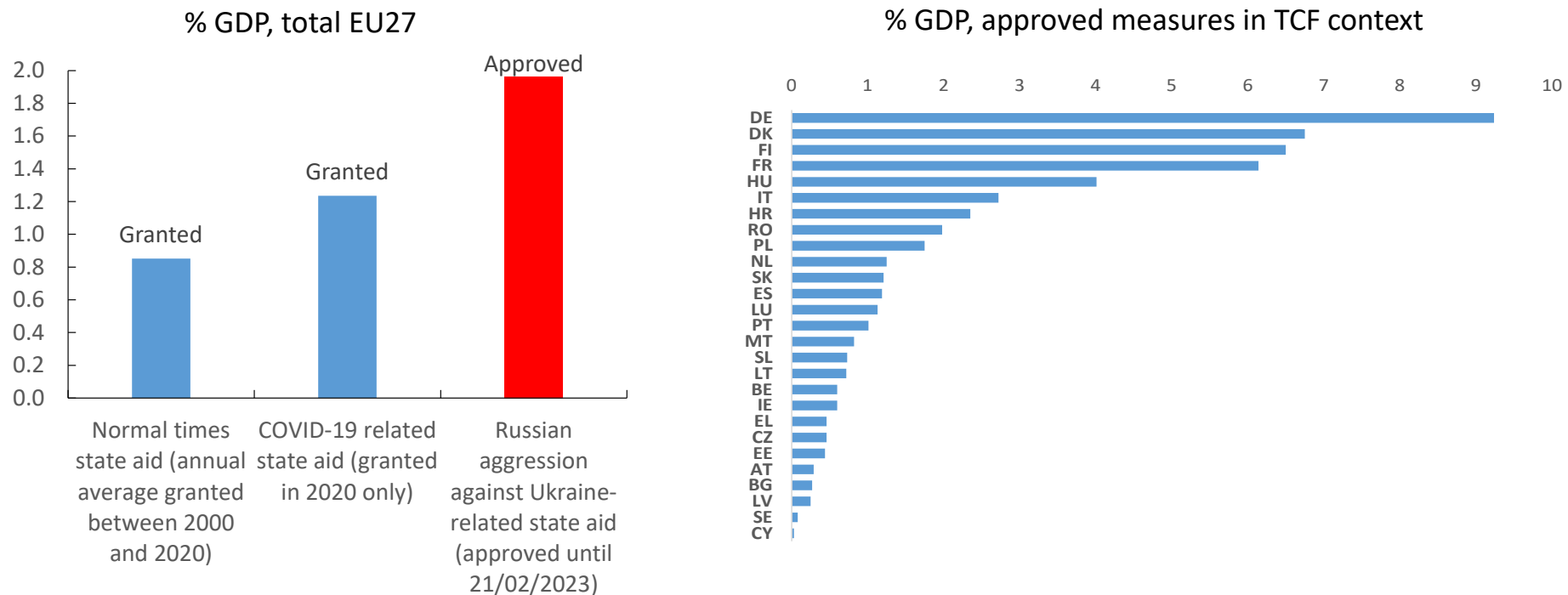
Industrial policy interventions worldwide (2010-2022)



Source: Juhász et al. (2023)

Remark 1: Increasingly relevant theme

State aid, EU27, various periods



Source: Granted data come from the European Commission State Aid scoreboard data (from 01/01/2000 to 31/12/2020). The data are based on the annual state aid expenditure reporting by Member States, pursuant to Article 6(1) of Commission Regulation (EC) 794/2004. The data related to the approved State aid after the Russian aggression against Ukraine (TCF context) are available in the State aid registry (https://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy_area_id=1,2,3). The aggregated figures are provided by the European Commission, DG COMP, based on the information extracted from the decision texts.

Remark 2: Value added compared with existing papers

- Intertemporal model a-la Ghironi and Melitz (2005) allows understanding implications of sluggish firm entry for industrial and trade policy.
- Sluggish entry matter: results differ as compared to similar papers (e.g., Haaland and Venables, 2016; Lashkaripour and Lugovskyy, 2024,...)
- Welfare assessment over different time horizons: myopia matters for policy choices
- Model calibration allows gauging the magnitude of welfare impact of alternative policy packages

Remark 3: focus, some clarifications, provide intuition of results

Model basics

- Why allowing for endogenous offshoring? Is this central to the focus of the analysis? Is this needed to create value added as compared with existing similar analyses?
- Why not admitting also more than one sector as in analogous previous studies to also assess the role of policies in correcting distortions relating to the IRS, imperfect competition sector?

Focus

- Rich set of policy instruments, rich set of results reported: At the expense of synthesis?

Remark 3: focus, some clarifications, provide intuition

Help intuition of results

- What drives the main results and why do they differ compared with other similar studies? E.g., why is a production subsidy welfare improving while reducing entry? Why inducing losses in trade partners?
- Useful a discussion along the lines provided in existing analogous studies:
 - Industrial policy: to deal with distortions linked to market structure (pricing above marginal cost, “love-for variety externality” typical of monopolistic competition)
 - Trade policy: to deal with terms of trade externality
- Discuss robustness: are results robust to assumptions, functional forms, calibration?

Remark 3: focus, some clarifications, provide intuition of results

Policy shocks

- Clarify in the simulations what is driven by the mere decay of the shock at longer time horizons.
- Why not considering also fully persistent measures as benchmark?
 - The simulations assumes a shocks that approaches zero after about 2.5 years.
 - Evidence suggests that across a sample of advanced and emerging economies a majority of firms receive subsidies for more than 10 consecutive years (OECD MAGIC database)

Remark 4: pending questions, alternative assumptions

- Key unaddressed questions:
 - Are welfare gains monotonic in the magnitude of policy instruments?
 - What could be the size of optimal policy?
 - How are “best responses” shaped? What about non-coordinated vs coordinated solutions?
- Leverage inter-temporal features of the model: E.g., the government can run deficits/surpluses.

Remark 5: translating key results to a policy audience

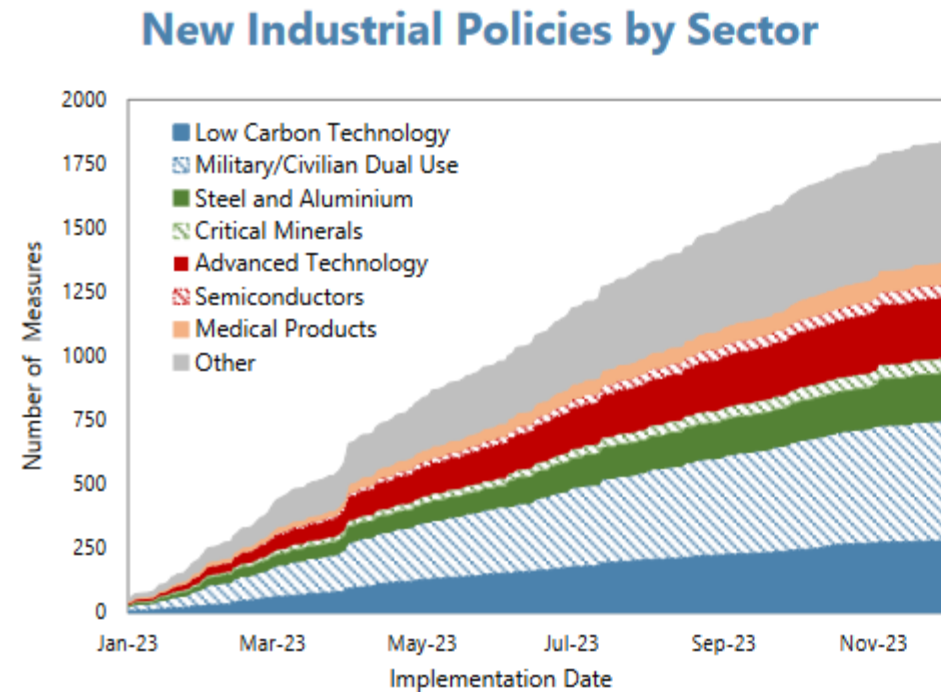
- “Tariff wars” are a prisoner dilemma. “Subsidy wars” emerge as an uncoordinated equilibrium and is welfare compared with status quo relevant time horizons.
- In line with existing results, e.g., with Lashkaripour and Lugovskyy, 2024 (although relevant difference: “race to the bottom”, i.e., cooperative outcome would require a *higher* subsidy)
- Generalised subsidisation of industry still runs against conventional wisdom for policy (WTO discipline, EU state aid framework, etc.)
- Helpful
 - Explaining rationale (addressing market structure distortions)
 - Going beyond illustrative policy shocks and discussing optimality
 - Discussing robustness and whether assumptions are realistic (perfect information, lack of institutional failures...)

Remark 6: ideas for further work

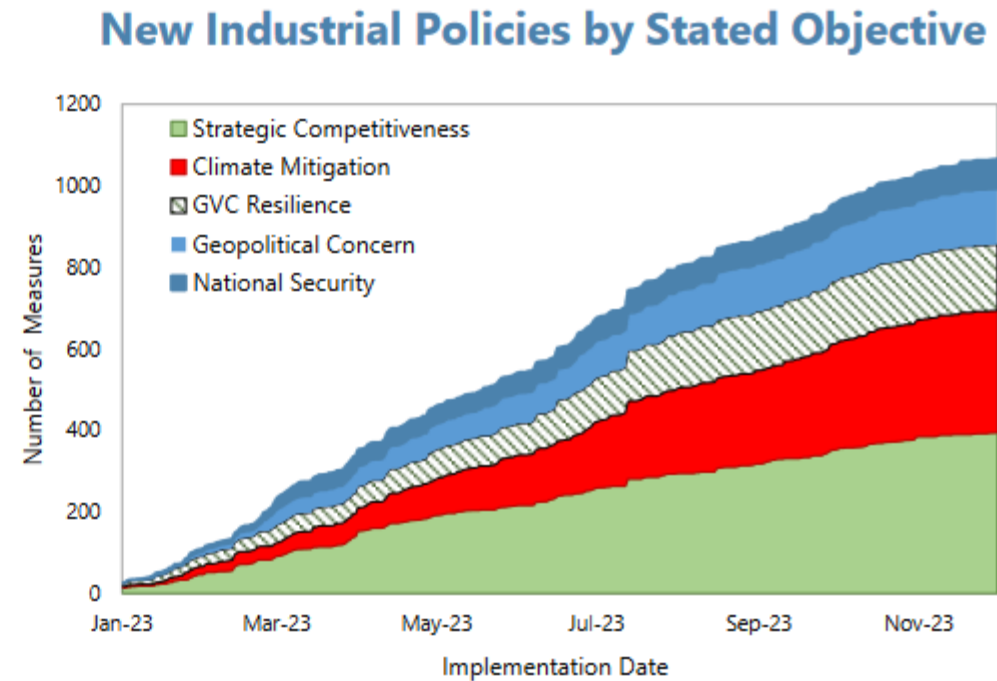
- Overcoming the limitation of Dixit-Stiglitz + CES of constant mark-ups?
- “Single market narrative”
 - Integration
 - Mark-up squeeze
 - Firm exit and restructuring
 - Fewer larger firms better exploiting scale economies
- “Profit-shifting” industrial policy. Subsidy-wars may induce prisoner dilemma outcomes (Brander and Spencer, 1985)
- Few general equilibrium models suited to analyse industrial policy in settings with endogenous mark-ups (e.g., Nocco, Ottaviano and Salto, 2014)

Remark 6: ideas for further work

- Dynamics scale economies
- Sectors with relevant externalities



Note: Cumulative stock of measures. For measures affecting multiple sectors, each sector is given equal weight.



Note: Cumulative stock of measure with IP-related motive. For measures with multiple motives, each motive is given equal weight.

Source: IMF, industrial policy coverage in IMF surveillance, 2004, based on Global Trade alert data