

Western Industrial Policy and International Law

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With recent landmark legislation to support decarbonization and innovation, the United States is making up for lost time after its failed 40-year experiment with neoliberalism. But if it is serious about embracing a new paradigm, it will need to do more to help bring the rest of the world along.

NEW YORK – With the enactment last year of the Inflation Reduction Act (IRA), the United States fully joined the rest of the world’s advanced economies in combating climate change. The IRA authorizes a major [increase in spending](#) to support renewable energy, research and development, and other priorities, and if [estimates](#) about its effects are anywhere near correct, the impact on the climate will be significant.

True, the design of the law is not ideal. Any economist could have drafted a bill that would deliver much more bang for the buck. But US politics is messy, and success must be measured against what is possible, rather than some lofty ideal. Despite the IRA’s imperfections, it is far better than nothing. Climate change was never going to wait for America to get its political house in order.

Together with last year’s CHIPS and Science Act – which aims to support investment, domestic manufacturing, and innovation in semiconductors and a range of other cutting-edge technologies – the IRA has pointed the US in the right direction. It moves beyond finance to focus on the real economy, where it should help to reinvigorate lagging sectors.

Those who focus solely on the IRA’s [imperfections](#) are doing us all a disservice. By refusing to put the issue in perspective, they are aiding and abetting the vested interests that would prefer for us to remain dependent on fossil fuels.

Chief among the naysayers are defenders of neoliberalism and unfettered markets. We can thank that ideology for the past 40 years of weak growth, rising inequality, and inaction against the climate crisis. Its proponents have always argued vehemently [against industrial policies](#) like the IRA, even after [new developments](#) in economic theory explained why such policies have been necessary to promote innovation and technological change.

It was partly owing to industrial policies, after all, that the East Asian economies achieved their economic “[miracle](#)” in the second half of the twentieth century. Moreover, the US itself has long [benefited](#) from such policies – though these were typically hidden in the Department of Defense, which helped develop the internet and even the first browser. Likewise, America’s world-leading [pharmaceutical sector](#) rests on a foundation of government-funded basic research.

US President Joe Biden’s administration should be commended for its open rejection of two core neoliberal assumptions. As Biden’s national-security adviser, Jake Sullivan, recently [put it](#), these assumptions are “that markets always allocate capital productively and efficiently,” and that “the type of growth [does] not matter.” Once one recognizes

how flawed such premises are, putting industrial policy on the agenda becomes a no-brainer.

But many of the biggest issues today are global and thus will require international cooperation. Even if the US and the European Union achieve net-zero emissions by 2050, that alone will not solve the problem of climate change. The rest of the world also must do the same.

Unfortunately, recent policymaking in advanced economies has not been conducive to fostering global cooperation. Consider the [vaccine nationalism](#) that we saw during the pandemic, when rich Western countries hoarded both vaccines and the intellectual property (IP) for making them, favoring pharmaceutical companies' profits over the needs of billions of people in developing countries and emerging markets. Then came Russia's full-scale invasion of Ukraine, which led to soaring [energy and food prices](#) in Sub-Saharan Africa and elsewhere, with virtually no help from the West.

Worse, the US [raised interest rates](#), which strengthened the dollar against other currencies and exacerbated debt crises across the developing world. Again, the West offered little real help – only words. Though the G20 had previously agreed on a framework to [suspend debt servicing](#) by the world's poorest countries temporarily, debt restructuring is what was really needed.

Against this backdrop, the IRA and the CHIPS Act may well reinforce the idea that the developing world is subject to a double standard – that the rule of law applies only to the poor and weak, whereas the rich and powerful can do as they please. For decades, developing countries have chafed against global rules that prevented them from subsidizing their nascent industries, on the grounds that to do so would tilt the playing field. But they always knew there was no level playing field. The West had all the knowledge and IP, and it did not hesitate to hoard as much of it as possible.

Now, the US is being much more open about tilting the field, and Europe is poised to do the same. Though the Biden administration [claims](#) to remain committed to the World Trade Organization “and the shared values upon which it is based: fair competition, openness, transparency, and the rule of law,” such talk rings hollow. The US [still has not](#) allowed new judges to be appointed to the WTO's dispute-settlement body, thus ensuring that it cannot take action against violations of international-trade rules.

To be sure, the WTO has plenty of problems; I have [called attention](#) to [many](#) over the years. But it was the US that did the most to shape the current rules during the heyday of neoliberalism. What does it mean when the country that wrote the rules turns its back on them when it becomes convenient to do so? What kind of a “rule of law” is that? If developing countries and emerging markets had ignored IP rules in a similarly flagrant way, tens of thousands of lives would have been saved during the pandemic. But they did not cross that line, because they had learned to fear the consequences.

By adopting industrial policies, the US and Europe are openly acknowledging that the rules need to be rewritten. But that will take time. To ensure that low- and middle-income countries do not grow increasingly (and justifiably) embittered in the meantime, Western governments should create a technology fund to help others match their spending at home. That would at least level the playing field somewhat, and it would foster the kind of global solidarity that we will need to address the climate crisis and other global challenges.

