

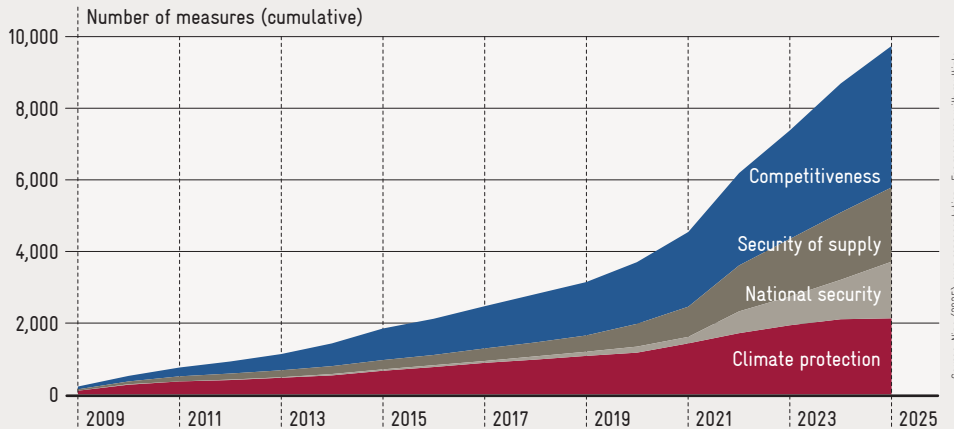
Industrial Policy Is an Illusion

Worldwide, industrial policy is on a roll. However, despite considerable expenditure, targeted government interventions aimed at specific firms or sectors are rarely successful.

Situation

Unlike economic policy, which focuses on framework conditions, industrial policy is based on selective intervention. It specifically favors certain companies, sectors or technologies. In contrast to other countries, Switzerland has so far rejected such measures, sometimes referred to as vertical industrial policy. However, these promises are multiplying, particularly those concerning the preservation of traditional industries and the establishment of promising new ones to improve national security, security of supply, to increase competitiveness and to mitigate climate change.

Doubling of industrial policy subsidies since 2021



Industrial policy subsidies are granted worldwide for competitiveness, climate protection, national security, and security of supply – and have amounted to at least 2.28 trillion USD since 2021.

Facts

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Current foreign industrial policy likely has little impact on Swiss economy, as the negative (distortion of competition) and positive effects (increase in foreign demand) more or less balance each other out.

■ **Weakening competitiveness:** Industrial policy risks delaying structural change and weakening the competitiveness of the Swiss economy. Subsidies to certain industries are costly and tie up capital and manpower needed for more productive activities.

■ **Collective intelligence vs. centralized planning:** The government is often not as agile as the private sector when it comes to identifying future markets and technologies. Even a well-informed public service is up against many companies who have more information. Historically, industrial policy has therefore often failed.

■ **For a few at the expense of all:** The government must finance industrial policy by increasing taxes or by foregoing other expenditure. Privileges granted to certain companies happen to the detriment of many others (competitors, taxpayers, consumers, etc.).

■ **Poor incentives and inefficiencies:** The possibility of receiving public funds encourages companies to engage in lobbying. Industrial policy leads to inefficiencies, and the government risks being captured by certain private interests. Once granted, subsidies are difficult to withdraw.

Recommendations

Foreign industrial policies can distort competition for some Swiss companies, but Switzerland also benefits from these subsidies: **new markets** emerge for our companies. Moreover, **products can be imported at lower cost**. Instead of risking indus-

trial policy fails, Switzerland should pursue economic policy that enables structural change and supports our highly specialized economy. This means remaining **attractive to innovative people and companies**, and ensuring a social safety net.

