

Industrial Policy: Boundaries and Instruments

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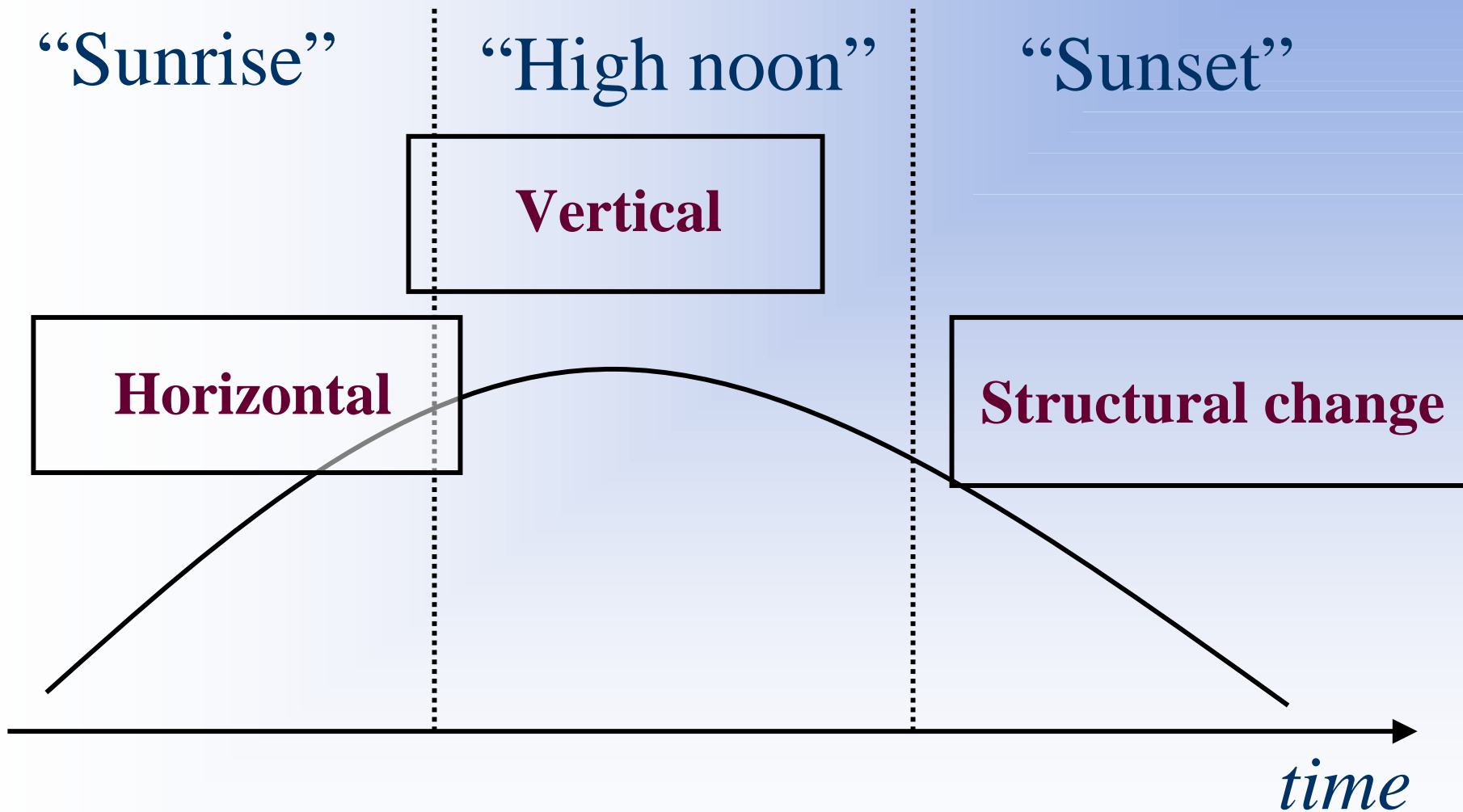
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Contents

- Illustration: Industrial policy (IP) in a firm's life cycle
- IP vs. other policies: goal conflicts
- IP instruments and policy conflicts

IP in a firm's life-cycle



IP and competition policy

- Horizontal ⇒ No conflict
- Vertical ⇒ Conflict, if loss in competition > gain in productive efficiency
- Structural change ⇒ Conflict, whenever support is selective

IP and trade policy

- Horizontal ⇒ No conflict
- Vertical ⇒ Controversial: can both increase and distort trade
- Structural change ⇒ Conflict, if loss of free trade > gain from temp. protection

IP instruments

- Horizontal ⇒ Fiscal (innovation subsidies)
- Vertical ⇒ Fiscal (product support),
competition (merger control)
- Structural change ⇒ Trade (temp. tariff protection)

Conclusion

- IP goals can conflict with other policies
 - IP borrows instruments from other policies, which may also create conflicts with them
- Scope for IP: Is achieving IP goals worth missing others?



