

Confronting the Developmental State American Trade Policy in the Neoliberal Era

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CONFRONTING THE DEVELOPMENTAL STATE: AMERICAN TRADE POLICY IN THE NEOLIBERAL ERA

PhD Series 30.2021

Tom Wraight

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DEVELOPMENTAL
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AMERICAN TRADE POLICY IN THE
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COPENHAGEN BUSINESS SCHOOL

HANDELSHØJSKOLEN

Confronting the Developmental State: American Trade Policy in the Neoliberal Era

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This PhD thesis grew out of a scholarship at CBS aimed at encouraging research on the '*Politics and Policies of De-Globalization*'; an initiative which no doubt had its origins in the panicky autumn of 2016 when the Brexit referendum and the election of Donald Trump as president of the United States had everyone nervous that the global order faced imminent collapse. I suppose that my first thanks, therefore, should go to Donald Trump, Nigel Farage and the whole cavalcade of populist insurgents/Russian trolls that made my three years in Copenhagen possible. They will forever have a special place in my heart. More seriously, I am grateful for the generous financial support I received at CBS and from the Danish government to make this work possible.

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Abstract

In the past four decades American foreign economic policy has become increasingly preoccupied with the challenge of the East Asian developmental state. This was a challenge faced first with the economic rise of Japan in the 1980s, and now, since the 2000s, with the rise of China. This thesis examines the way US policymakers have responded to the challenge of the East Asian developmental state. Specifically, it charts the emergence of an ‘anti-developmental’ order within US foreign economic policy which views the industrial policies of foreign states as a serious threat to American interests and sanctions the use of aggressive unilateralist trade policy in response to this threat.

Drawing on recent advances in ideational scholarship as well as the concept of intercurrency in American Political Development (APD), I argue that this anti-developmental order reflects a uniquely American relationship with developmentalism as an ideology. American political development has long been shaped by a tension between developmentalist and liberal notions of economic governance. This tension became particularly acute during the ‘industrial policy debate’ of the 1970s/1980s when elements on the left sought to advance a national industrial policy as an alternative to the emerging neoliberal paradigm presaged by the Reagan revolution. The result of this, I argue, was a process of ‘ideational reassociation’ where industrial policy was dismissed as impractical in the US but regarded nevertheless as effective and dangerous when practiced by East Asian states. Contained within this was the corollary that, if the US did not wish to see continued competitive decline it needed a new kind of trade policy, capable of confronting the East Asian developmental state.

In making this argument, the thesis sheds light on an important aspect of contemporary US foreign economic policy. It also advances theoretical debates concerning the role of ideas in politics and how the interaction of competing paradigms can have significant and surprising implications. The argument also helps explain the radical reorientation of US trade policy which took place in the Trump administration as well as the institutional and ideational factors driving the US-China confrontation today.

Abstract (Danish)

I de sidste fire årtier er amerikansk udenrigspolitik blevet mere og mere optaget af udfordringen fra østasiatiske økonomier, og hvilken rolle staten spiller i styrkelsen af disse økonomiers konkurrenceevne. Udfordringen viste sig første gang ved Japans økonomiske fremgang i 1980'erne og efter årtusindeskiftet også i forbindelse med Kinas udvikling mod økonomisk supermagt. Denne afhandling undersøger, hvordan amerikanske politikere har reageret på udfordringen fra østasiatiske økonomier. Den kortlægger fremkomsten af et paradigme inden for amerikansk udenrigspolitik, der opfatter de udenlandske staters industripolitik som en alvorlig trussel mod amerikanske interesser, og som argumenterer for anvendelsen af aggressive modsvar som reaktion på denne trussel.

Med udgangspunkt i nyere forskning i ideers betydning i politik, og gennem anvendelse af begrebet 'intercurrence' som udviklet i forskningen i amerikansk politik (American Political Development), argumenterer afhandlingen for, at denne opfattelse af østasiatiske landes industripolitik afspejler en særlig amerikansk tilgang til statens rolle i økonomisk udvikling. Amerikansk politisk tænkning har længe været præget af en spænding mellem tilhængere af en aktiv industripolitik på den ene side og liberalistisk skepsis over for statslig indblanding i økonomien på den anden. Denne konflikt nåede et højdepunkt under den amerikanske debat om industripolitik i 1970/1980erne, hvor dele af venstrefløjen søgte at fremme en national industripolitik som alternativ til det neoliberalistiske paradigme, som voksede frem under Reagan-revolutionen. Afhandlingen argumenterer for, at resultatet af debatten blev, hvad man kan kalde en ny idemæssig sammenknytning ('reassociation'). Industripolitik blev afvist som ubrugelig i amerikansk sammenhæng, men blev ikke desto mindre opfattet som både effektiv og farlig for amerikanske interesser, når den blev praktiseret i østasiatiske økonomier. Det var en konsekvens af denne opfattelse, at vejen mod en styrkelse af den amerikanske konkurrenceevne måtte gå gennem skabelsen af en ny handelspolitik, der kunne modstå truslen fra de østasiatiske økonomier.

Det er en tolkning, der kaster lys over et vigtigt aspekt af amerikansk udenrigsøkonomisk politik. Den bidrager ligeledes til den teoretiske diskussion om ideers betydning i politik, herunder særligt hvordan konkurrencen mellem policy-paradigmer kan få både betydningsfulde og uforudsete politiske konsekvenser. Analysen bidrager også til vores

forståelse af den radikale omlægning af amerikansk handelspolitik, som foregik, mens Trump var præsident, såvel som de idemæssige og institutionelle faktorer der driver aktuelle konflikter mellem USA og Kina.

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List of Abbreviations

AFL	American Federation of Labor
APD	American Political Development
ARDC	American Research Development Corporation
ARPA	Advanced Research Projects Agency
BEIS	Department of Business, Energy and Industrial Strategy
BRIE	Berkley Roundtable on the International Economy
DARPA	Defense Advanced Research Projects Agency
DTI	Department of Trade and Industry
EPN	Economic Prosperity Network
GATT	General Agreement on Tariffs and Trade
HSES	House Subcommittee on Economic Stabilization of the Committee on Banking Finance and Urban Affairs
IMF	International Monetary Fund
JEC	Joint Economic Committee
MITI	Ministry of International Trade and Industry
NASA	National Aeronautics and Space Administration
NIH	National Institute of Health
NRA	National Recovery Administration
NSF	National Science Foundation (NSF),
RFC	The Reconstruction Finance Corporation
SBIC	Small Business Investment Company
SBIR	Small Business Innovation Research
SFC	Senate Finance Committee's Subcommittee on International Trade
SOEs	State Owned Enterprises
STTR	Small Business Technology Transfer Program
SUM	Society for the Establishment of Useful Manufactures
TVA	Tennessee Valley Authority
USCC	United States-China Economic and Security Review
USTR	Office of the United States Trade Representative
WMC	Committee on Ways and Means
WTO	World Trade Organization

Introduction

1979 was a critical moment in the history of the United States. The year in which Paul Volker was appointed chairman of the Federal Reserve and Ronald Reagan announced his candidacy for President; it has been widely recognised as the moment when neoliberalism began its conquest of American politics (Harvey 2005,1). Washed away would be much of the legacy of the ‘New Deal order’ that had sought to tame the vicissitudes of the market through government intervention (Fraser and Gerstle 1989). Along with this would go the ‘embedded liberalism consensus’ of the post-war international regime which, underwritten by American support, had employed capital controls and other devices to make space for social democracy at the national level (Ruggie 1982; 1997). In place of these discarded arrangements, a brave new world of privatisation and financial deregulation would emerge; a world in which the market would reign supreme, and the role of the state would lie in expanding, and not obstructing, its sphere of operation (Harvey 2005; Ryan 2015; Widmaier 2016a; Peck, Brenner, and Theodore 2018; Slobodian 2018a). The spirit of the times, and of this new neoliberal policy paradigm¹ would be encapsulated in Reagan’s declaration during his inaugural address that ‘government is not the solution to our problems, government *is* the problem’ (1980).

Yet 1979 was also a consequential year for another, less frequently remarked upon reason. That year marked the publication of a book by Ezra Vogel entitled *Japan as Number One: Lessons for America* (1979). A bestseller at the time, the book argued that the Japanese had discovered a new and highly effective form of capitalism, one in which the state actively directed and supported the private sector; steering it towards higher value activity to secure large productivity increases and rapid economic growth (Morris 2011). Vogel’s book, and others like it, introduced American audiences to a new competitor to their economic model. In 1982, this competitor would be given a name in Chalmers Johnson’s influential book *MITI and the Japanese Miracle* which argued that the Japanese Ministry of International Trade and Industry (MITI) played a critical role in managing the Japanese economy. Johnson described Japan as a ‘developmental state’, taking direct responsibility for guiding economic development and using

¹ As discussed in the first paper of this thesis I use the term policy paradigm to refer to a dominant set of ideas that structure policy decisions over a wide set of different domains. This use of the term is informed by Hall (1993).

active ‘industrial policies’ to promote important sectors and create national economic champions (Johnson 1982, 10).² He contrasted this with the ‘regulatory state’ of the US that supposedly limited its purview to establishing fair rules of competition within the market economy (Johnson 1982, 11).

In the years that followed, the activities of developmental states posed major challenges for American policymakers. In the 1980s and 90s this challenge came primarily from Japan. Since the 2000s, it has come primarily from China, which has adopted many elements of Japanese developmental capitalism (Heilmann and Shih 2013; Nolan 2014). In both cases, the economic rise of these countries and their emergence as the largest trading partners of the United States has strongly impacted the American economy, creating many winners but also many losers (Morris 2011; Autor, Dorn, and Hanson 2016). In both cases, American officials have struggled to manage trading relations with these states and navigate their radically different economic model. US-Japan trade relations emerged as a major issue during the Reagan, Bush Senior, and Clinton administrations and US-China relations emerged as an equally critical issue during the presidencies of Bush Junior, Obama and, most notably, Trump. For the past four decades then - spanning the virtual entirety of the neoliberal era - American policymakers have been faced with the challenge of the developmental state.

This thesis examines how American policymakers have responded to that challenge. It traces the emergence of a new policy order³ within US foreign economic policy that I label ‘anti-developmentalism’. This anti-developmental order, I argue, conceptualises the industrial policies of developmental states as a major threat to American interests and seeks to employ aggressive unilateralist⁴ trade negotiation to contain or remove such policies. This new order has - in turn - played a key role in shaping US foreign economic policy and been central to

² For readers unfamiliar with the notion of a developmental state, or developmentalism, more detail is given on pages 16-19.

³ I discuss in detail what I mean by the term ‘order’ in the first paper of this thesis, but it essentially refers to a set of ideas connected to powerful social interests that have been institutionalised within the state. The term is used in American Political Development (APD) research - see for instance Lieberman (2002) and King and Smith (2005) and is similar to the concept of a ‘policy paradigm’ as employed in the ideational political science literature (Hall, 1993; Widmaier, 2016). Throughout the thesis I employ the terms ‘paradigm’ and order together, but I use the former to refer to general frameworks of dominating ideas and the latter to refer to more specialised configurations of ideas and institutions.

⁴ By ‘aggressive unilateralism’, I refer to an approach to foreign economic policy which engages in direct negotiation with other states - unmediated by the General Agreement on Tariffs and Trade (GATT) or by the World Trade Organisation (WTO) – and which threatens to employ protectionist measures if demands are not acceded to. The term ‘aggressive unilateralism’ was employed in this way by Bhagwati and Patrick (1991).

justifying deviations from the general post-war American commitment to multilateral trade liberalisation (Goldstein, J 1993; Hiscox 1999; Chorev 2007; Irwin 2017). It led the arch free marketer Ronald Reagan to impose more protectionist measures than any president since the 1930s (Hanke, 2008; Irwin 2017) and drove the adoption of ‘results oriented’ trade policy against Japan during the George H.W.Bush, and Clinton administrations (Kunkel 2003; Uriu 2009). It has underscored the deep concern about US-China trade relations which were already evident in acrimonious debate on Chinese World Trade Organisation (WTO) membership in the late 1990s and which grew precipitously during the George W Bush and Obama administrations (Blustein 2019). More recently, it has been central to the Trump administration’s unprecedented attempt to force China to abandon its developmental capitalist model (Liu and Woo 2018; Davis and Wei 2020).

The emergence of this anti-developmental order is a perplexing phenomenon given the general hegemony of a neoliberal paradigm during this period. Neoliberalism, as it is generally understood, is an intellectual movement strongly supportive of trade liberalisation and opposed to protectionism in virtually all circumstances. Furthermore, from an orthodox neoliberal perspective, developmental states would be judged as certain to fail, wrecking their economies through ill-conceived government interventions and thereby underperforming compared to more free market societies. Milton Friedman - one of the high priests of American neoliberalism - expressed this forcibly arguing;

History provides lots of evidence on what happens when government protected industries compete with industries that have to operate in an open and free market. It’s almost always the government-protected industries that come out second best (*The Tyranny of Controls*, 1979, Episode 2, 20)

About foreign industrial policies, Friedman breezily maintained ‘subsidies of foreign producers that lower prices for Americans are a form of philanthropy, why should we complain?’ (Friedman 1980,83). Given such attitudes, the rise of a policy order that viewed foreign developmental states as a threat - and one sufficiently grave to sanction the use of protectionism - seems in deep tension with neoliberal ideas. This raises the question, if neoliberal ideas really

were so dominant in the 1980s, how did a policy order that seemed to defy core neoliberal tenets become established in US foreign economic policy?⁵

A second paradoxical issue concerning the rise of this anti-developmental order is that in the same period as its emergence, the US government, as Block has observed, ‘dramatically expanded its capacity to finance and support the efforts of the private sector to commercialise new technology’ (2008, 169). Through a host of agencies, including the *Advanced Research Projects Agency* (ARPA) located within the Department of Defense (Jacobsen 2015; Weinberger 2017), as well as the *Small Business Investment and Research Program* (SBIR) and the *Small Business Technology Transfer Program* (STTR) both located in the Department of Commerce (Connell 2007; Weiss 2014), the US government invested millions of dollars in upgrading the US industrial technological base by supporting specific industries and firms. These agencies and their activities are often argued to collectively constitute an ‘American developmental state’ (Block 2008; Mazzucato 2013; Hockett and Omarova 2015; Wade 2017; Quinn 2019). To be sure, this American developmental state is far less overt than its East Asian cousin. Indeed, it is frequently described as a ‘hidden developmental state’ the activities of which are concealed in various ways and go unacknowledged by politicians and much of the media (Block 2008; Mazzucato 2013; Wade 2017).⁶ Despite their obscurity, the diverse set of agencies said to make up the US developmental state clearly do operate based on certain developmentalist assumptions. These include agreement that it is important to cultivate national competitive advantage in key high technology sectors; that private capital markets cannot be trusted to make the right investments on their own; and government can therefore play a useful role in influencing this process (Block 2008). It is difficult to clearly delineate such ideas and policies from the activities of East Asian developmental states. Moreover, given the operation of such developmentalist activities *within* the American state, the existence of an anti-

⁵ While it may be argued that foreign economic policy has simply been an isolated site of resistance to neoliberal hegemony, this does not square well with the fact that trade policy more generally has been a policy area heavily infiltrated by neoliberal ideas (see for example Chorev 2006).

⁶ What it means to describe the US developmental state as ‘hidden’ and how this ‘hiddenness’ can be explained is a major topic addressed in this thesis, particularly in papers 2 and 3. At this stage, it should be sufficient to note that the lack of attention paid to the US developmental state reflects, among other factors; the lack of a central high-profile coordinating agency, the opacity and highly technical nature of much agency activity and the tendency of government to work through the credit system and through public-private partnerships rather than provide more direct state support for industry.

developmentalist order in foreign economic policy seems inconsistent at best and nakedly hypocritical at worst.⁷

How can both an anti-developmental order in foreign economic policy and a form of developmental state coexist, and how can either fit within the neoliberal policy paradigm established in the United States since the 1980s?⁸ This thesis offers an exploration of these questions, based around a concept that I have termed ‘ideational reassociation’. By ideational reassociation I refer to the process whereby ideas from different paradigms or orders *merge* to produce a new and unexpected synthesis.⁹ Ideational reassociation has always been an important part of American political development continuously characterised by the interaction of competing political traditions (Smith 1993; 1999). In particular, a powerful liberal tradition has long been a central force in US politics and a variety of non-liberal traditions have bent, adjusted, and taken on intriguing shapes and guises in response to it (Hartz 1955; Ericson 2016). This process has likely played a role in shaping many of the unique institutions and policy settlements that characterise US politics (Abbott 2005; King and Smith 2005; Monroe 2005).

It is the argument of this thesis that the process of ideational reassociation resulting from such ‘clashing traditions’ helps explain the anti-developmental order established in recent US foreign economic policy. Although it contradicts the popular image of the United States as the home of laissez faire free markets, scholars have pointed out that the country actually has a long developmentalist tradition of its own (Bingham 1998; Cohen and DeLong 2016; Palen 2016; Wade 2017). Indeed, it is possible to trace the origins of developmentalism as an economic ideology to the United States - with Alexander Hamilton’s *Report on Manufacturers* (1791) being one of the most important early statements of developmentalist thinking (Lind 1997; Chang 2003; Shankman 2003; Cohen and DeLong 2016). Demonstrably, there is a long history of active industrial policy in the United States stretching back to the very foundation of the

⁷ The charge of hypocrisy has been made, for instance, by Chang (2003). Chang has described US opposition to foreign developmental states as an act of ‘kicking away the ladder’, instructing countries to neglect the route to success that made the United States rich.

⁸ Of course, no law of nature says that a state apparatus may not contain internal tensions and contradictions and the American state in particular has been historically rife with them (Orren and Skowronek 2004). Nonetheless, if we are to view the neoliberal policy paradigm since the 1980s as a stable and durable regime, this ought to imply it has had strong influence on foreign economic and science and technology policy. It consequently seems reasonable to consider what the relationship between this regime and the anti-developmental order in foreign economic policy has consisted of.

⁹ The concept is discussed in detail in Paper One. It draws in part on the work of Skowronek (2006).

Republic (Bingham 1998; Lind 2012; Wade 2017). From infant industry protection to industrial subsidies, preferential procurement to technology transfer – there is very little activity associated with modern developmental states that the US has not engaged in at some point in its history.

Of course, in important ways, this developmentalist tradition runs counter to the American liberal tradition, thus creating periodic clashes between them (Lind 2012). One such clash was evident in the early 1980s when, in what has been termed the ‘industrial policy debate’, elements of the American left sought to advocate for a national industrial policy as an alternative to the supply-side agenda being pushed by the Reagan administration (Graham 1992). It was in this febrile ideational environment, I argue, that the roots of contemporary US anti-developmentalism took hold. Here, developmentalist assumptions about the potential effectiveness of industrial policies commingled with ideas - embedded in the American liberal tradition - about the inadvisability of pursuing them within the United States.¹⁰ Specifically, it became widely accepted that while industrial policies could enhance wealth and power within illiberal and non-democratic societies, they were unworkable within the American liberal-democratic system of government. This acceptance produced a consensus whereby, although policymakers did not wish to imitate the activities of East Asian developmental states, they saw such activities as a threat that needed to be contained. In this way, I argue, the combination of developmentalist and liberal ideas in US political culture helped produce the anti-developmental order of recent foreign economic policy.

The intermingling of liberal and developmentalist ideas is also crucial to understanding the modern US developmental state and especially in understanding how that state is ‘hidden’ (Block 2008; Mazzucato 2013). The industrial policy debate, I suggest, embedded key developmentalist assumptions within the US polity, particularly regarding the incapacity of financial markets to invest sufficiently in high-risk, high reward ventures. Although unwilling to embrace traditional industrial policy as a solution, policymakers were determined to find some policy response to what came to be regarded as a key problem for national competitiveness. That solution ultimately came in the form of large-scale government support for the fledgling venture capital industry, framed by its supporters as a free market alternative to

¹⁰ I seek to establish this in paper three of this thesis.

active industrial policy employed in foreign developmental states.¹¹ The underlying assumption behind these reforms was that if government support for industry remained private sector-led, it would be more compatible with free market capitalism than traditional industrial policy. As a result, I argue, again due to the co-mingling of liberal and developmentalist ideas, the hand of the American state remains opaque in the US national system of innovation and the US ‘developmental state’ remains hidden.

The papers that make up this thesis collectively seek to make this argument. They attempt to explain how both the anti-developmental order within foreign economic policy and the ‘hidden developmental state’ within science and technology policy relate to the broader neoliberal policy paradigm established in US politics after the 1980s. In doing so, the thesis aims to provide new insights into two crucial areas of American economic policy. It also serves as an interesting case study of neoliberalism in practice, contributing to debates on neoliberal resilience by illustrating how seemingly antagonistic ideas can be incorporated into neoliberal policy paradigms.¹²

Below, I provide a more detailed summary of this argument - as drawn across the four papers that make it up. I begin by describing some of the key terms employed in the argument, including the concepts of traditions, policy paradigms and policy orders which I refer to throughout. I also describe the somewhat opaque terms of developmentalism, anti-developmentalism and neoliberalism. I then outline the central argument of the thesis; that anti-developmentalism represents neither a straightforward departure from neoliberalism nor a straightforward application of it - but is rather the product of a synthesis *between* liberal and developmentalist ideas. I discuss both the theoretical perspective and methodological approach that underpins my argument as well as the role of the individual papers that follow. I then conclude by setting out the scholarly contribution I hope this thesis will make.

¹¹ Again, evidence for this contention is presented in the third paper of this thesis.

¹² I discuss this and the more general contributions of the thesis on page 40.

Definitions

The argument of this thesis employs several terms that are opaque or contested in their meaning (some notoriously so). Given this, I include here a short overview of how I employ them in the papers that follow.

Traditions, Policy Paradigms and Orders

At various points I refer to traditions, policy paradigms and policy orders; all terms that have been employed in a variety of ways in political science literature. Within this thesis they have the following meanings:

By ‘**tradition**’, I refer to an evolving set of ideas that stretch across a long period of history. This definition is largely adopted from Smith (1993) and his ‘multiple traditions framework’ for studying American political development.¹³ Tradition is used as a suitable label for researchers to refer collectively to a range of ideas spread across time that nonetheless share some lineage and are linked by some common theme.¹⁴ In this way, when I refer to a ‘liberal tradition’ and a ‘developmentalist tradition’ in American history, I am referring to a set of historical ideas which share some connection¹⁵ to each other and which can be seen as fitting today’s definition of liberal or developmentalist.¹⁶

¹³ Smith’s work and the multiple traditions framework will be discussed further in the theoretical section of this introduction.

¹⁴ The criteria for defining a tradition is somewhat less demanding than for policy paradigms and policy orders. It is not necessary to posit a high level of connection between the ideas making up a tradition, nor is it necessary to say that these ideas have been institutionalised within state structures or have played a dominant role in shaping policy outcomes.

¹⁵ Connection again, is a somewhat slippery term, but for the present purposes it can be understood as constituted by as little as positive allusions to earlier ideas by later thinkers and advocates. For instance, the way economic nationalists in the nineteenth century, and industrial policy advocates in the twentieth century often described themselves as embracing the legacy of Alexander Hamilton (see for example, Lind 1997; Cohen and DeLong 2016), is potentially sufficient to classify them as in the same tradition, despite the no-doubt considerable difference in world view between Hamilton and these later thinkers.

¹⁶ The analytical usefulness of ‘traditions’ as a concept within APD has been contested, with Orren arguing that the concept risks reifying ideas and separating them from their institutional settings. For this argument and Smith’s response to it see Orren (1996b; 1996a) and Smith (1996). As regards the perspective of this thesis, I would argue that the more specialised concepts of policy paradigms and policy orders are indeed often more useful for demonstrating the effects of ideas in politics. Nonetheless, I still consider traditions a usefully descriptive category through which to efficiently reference broad ideational patterns in American political development.

By ‘**policy paradigm**’, I refer to a set of ideas that become dominant *during* a particular historical period and shape the general course of policymaking.¹⁷ In these circumstances such ideas are institutionalised within the state apparatus and have the allegiance of powerful social interests thereby ensuring their durability (May and Jochim 2013). For example, when I refer to a ‘neoliberal policy paradigm’ I am referring to a set of ideas, characterised as neoliberal, which gained widespread influence in the 1980s and the allegiance of powerful actors, thereby becoming institutionalised within the state apparatus and influencing policymaking across many domains.

By ‘**policy order**’, I mean something closely akin to policy regime but more delimited, as well as more composite and heterogeneous in its ideational and institutional make-up. In a definition taken from Lieberman, such an order is ‘a regular, predictable, and interconnected pattern of institutional and ideological arrangements that structure political life in a given place’ (Lieberman 2002, 702). An order then, like a paradigm, is a set of ideas connected to both institutions and social interests that plays a dominant role in structuring policy decisions at a certain point in time. The concepts of an order and a paradigm are sufficiently similar that they are sometimes used interchangeably.¹⁸ Here however, I choose to differentiate the two in terms of expansiveness. I conceive of an order as applying *only* in a specific policy domain or subset of a domain, whereas a paradigm offers a general framework encompassing broad government activity. In addition to this, a paradigm is defined by a highly comprehensive and coherent ideational structure, while such criteria do not necessarily apply to orders.¹⁹ This distinction between orders and paradigm is purely my own and there is much literature which uses the term ‘order’ to refer to something akin to a ‘paradigm’ (Widmaier, 2016). I have chosen to employ the terms thusly however, as it is useful to this analysis to have clear terms distinguishing a general cross-domain nexus of ruling ideas from the more specific sets of ideas embodied in specific areas. This is an important distinction that can sometimes be obscured by overly expansive use of the terms ‘order’ or ‘paradigms’.

¹⁷ This conception of policy paradigm is drawn particularly from Hall (1993) and the extensive literature that Hall’s argument has generated (Blyth 2013; Princen and Hart 2014; Hogan and Howlet 2015; Carstensen and Matthijs 2018). It will be discussed in detail in paper one.

¹⁸ Widmaier (2016b) for instance, describes a ‘neoliberal order’ as emerging in the 1980s whereas I prefer to talk of a neoliberal paradigm.

¹⁹ Specifically, as I discuss in the first paper, a policy paradigm as defined by Hall (1993) has a particular structure made up of distinct *types* of ideas – instruments, instrument settings and basic assumptions. In the thesis I employ a slightly modified version of this typology, first proposed by Mehta (2010), which distinguishes policy prescriptions, goals/problem frames and basic assumptions.

The argument of this thesis examines how the anti-developmental policy *order* established in the 1980s related to the neoliberal policy *paradigm* that emerged in the same period. I argue that this order reflected a synthesis of ideas from both liberal and developmentalist traditions in US politics. To further explicate my arguments, it is also necessary to clarify the terms developmentalism, neoliberalism, and anti-developmentalism.

Developmentalism and the developmental state

The term ‘developmental state’ was originally coined by Johnson (1982) to describe an economic model that he saw being practiced in Japan and which proliferated in several other East Asian states (Johnson 1999; Woo-Cumings 1999). In essence, a developmental state is one that actively intervenes in the industrial structure of a country with the goal of promoting national economic development. In Johnson’s original formulation such a state was contrasted with the (liberal) conception of a ‘regulatory state’ solely concerned with enforcing rules allowing for ‘free and fair’ competition by firms in the free market (Johnson 1982). Thus, the developmental state can broadly be seen as a model that sanctions an expansive form of government intervention. Yet it is important to stress that unlike, for example, the welfare state, the goal of intervention for the developmental state is primarily economic development, rather than redistribution of wealth or the direct provision of some minimum standard of living. It would be a mistake, therefore, to see the developmental state as particularly aligned with leftist notions of state intervention; indeed generally speaking it can be regarded as both pro-capital and anti-labour and has frequently been associated with the suppression of trade unions (Jessop 2018).

The developmental state as a concept is a product of an ideational tradition known as ‘developmentalism’ (Minns 2006). Developmentalist ideas have a long pedigree going back to Mercantilist thinking of the 17th and 18th centuries. They were particularly associated with the 19th century German economic nationalist thinker Friedrich List (Levi-Faur 1997; Hellener and Pickel 2005; Yülek 2018).²⁰ As with most political ideologies the precise nature of developmentalism is somewhat difficult to articulate. According to Thurbon, ‘developmentalism is essentially a set of ideas about the necessity and desirability of

²⁰ As will be discussed later, First US Treasury Secretary, Alexander Hamilton also has a good claim to being regarded as a major early developmentalist thinker (Lind 1997; Cohen and DeLong 2016).

strategically governing the industrial economy for nation-building goals’ (2006, 8). Breaking this definition down we can distinguish three ideas at the core of developmentalism:

1. *That the industrial composition of a national economy matters.* Developmentalists argue that certain industries are strategically and materially important - in particular, those connected to manufacturing and technology (Aiginger and Rodrick 2020). This importance reflects not only the ‘spill-over’ benefits²¹ for the wider economy (Cohen and Zysman 1987), but also that, in imperfectly competitive global markets, a ‘first movers’ advantage gained by dominating an industry may lead to a net wealth transfer from the rest of the world (Tyson 1992).²² As such, developmentalists argue that economic and social progress depends on continuously upgrading the industrial and technological base and governments should take considerable interest in the sectoral composition of the economy (Thurbon, 2006). This core developmentalist idea was pithily expressed by Lester Thurow as the notion that it matters, ‘whether a nation makes computer chips or potato chips’ (Thurow 1994, 3). Such a viewpoint also implies that the work of development is never done and is not confined to the remit of low-income countries. Instead, as Hockett and Omarova note, ‘any developed nation that does not strive to develop, risks losing its competitive edge. In this sense, the United States is a developing country, whether Americans realise or admit it’ (2015, 115).
2. *That the free market, unaided, does not ensure adequate investment to achieve technological upgrading.* Developmentalists tend to argue that private activity will not lead to an optimal industrial composition of national economies. This is, in large part, because capital market imperfections – a lack of ‘patient capital’²³ for long-term investments and a discounting of the spill-over benefit inherent in high-risk high reward ventures – inhibit the flow of financing in optimal directions (Chang 1996). It is for this

²¹ ‘Spill-over effects’ refer to advances in one activity that reduce costs or increase productivity in another. It has been argued that manufacturing is particularly prone to spill-over effects because manufactured goods tend to be used in the service economy (Cohen and Zysman, 1987). For example, advances in computing that create cheaper, more efficient computers may have benefits for all service industries that rely on computers.

²² The argument here is that if a first mover advantage allows one nation’s firms to gain monopoly power it will then be able to extract rents from foreign consumers, thereby ultimately benefiting the nation (Krugman 1979).

²³ ‘Patient capital’ refers to the capacity of investors to have long-term horizons and invest in ventures the profitability of which is either uncertain or will only emerge gradually (Ivashina and Lerner 2021). It has been argued that financial markets, especially in liberal market economies, can struggle with providing patient capital as, disciplined by the stock market, investors feel pressured to maximise short-term returns (Hall and Soskice, 2001).

reason that developmentalists argue that the outcomes of the market can be improved on by appropriate state intervention.

3. *That state institutions can effectively intervene in the economy to advance industrial upgrading.* A third crucial assumption underpinning developmentalist thought is that it is possible to build state institutions capable of both improving on the market's performance and of adjusting the allocation of capital towards firms and industries that will most support industrial upgrading. Developmentalists are not naive regarding the risk of government failure. They recognise that badly informed state officials may do more harm than good and that government agents are potentially corruptible (Chang 1996). They therefore tend to focus on how to build bureaucracies capable of supporting development successfully. The essential goal is to achieve what Evans termed 'embedded autonomy'; the capacity of an agency to be sufficiently close to private industry that it has the expertise to implement policy, whilst at the same time being sufficiently insulated that it is not captured by special interests (1995). Emphasis is often placed on the need for a highly professionalised civil service and for a culture that holds government officials in high esteem (Block and Ngoita 2016; Singh and Ovadia 2018). When these conditions are met, developmentalists insist it is possible to create state institutions able to fulfil developmental goals effectively.

The core activity of the developmental state involves the use of 'industrial policies'; targeted, sector-specific policies aimed at assisting the development of critical industries. In their classic form, as operationalised in Japan, South Korea, and Taiwan in the mid-twentieth century, industrial policies typically involve identifying sectors judged important for development and channelling capital to those sectors through a combination of subsidy, loan-guarantees, and preferential public procurement (Johnson 1982; Amsden 1992; Chang 1999). This would often be accompanied by direct interference in the internal decisions of firms; for example, by forcing businesses to cooperate and share resources to prevent damaging competition and encouraging mergers between firms so as to concentrate the industry and create powerful 'national champions' (Chang 1999). It is through such activity that developmentalism most clearly comes into conflict with liberal ideas regarding the sanctity of private property rights and the value of free competition. This classic form of the developmental state, with its empowered state-actors and more docile private sector has been termed by some a 'developmental bureaucratic state'

(O’Riain 2004, 15-20). This definition does not necessarily exhaust the potential models of developmental state-building; other scholars instead talk of an alternative ‘developmental network state’ focussed less around targeting sectors or directing firms’ behaviour and more on building links between firms and research centres to encourage innovation.²⁴ It has largely been the ‘developmental bureaucratic state’ - as perceived to be manifest in East Asian societies such as Japan and China - that has most concerned American policymakers.²⁵

Anti-developmentalism

Having given an overview of developmentalism and the developmental state, I am now able to better define what I term ‘anti-developmentalism’. In using this term, I denote something more than mere opposition to developmentalist ideas and the use of industrial policies with which they are associated. Instead, anti-developmentalism in US foreign economic policy, as I conceive it, is something akin to anti-communism during the Cold War. It centres on a belief that not only are developmentalist ideas wrong, but also that the existence of developmental states abroad pose a threat to American interests and that, as a consequence, special measures need to be put in place to contain this threat. I use the term containment - with all its Cold War connotations - advisedly, as this parallel was explicitly drawn by some anti-developmentalists. For instance, in an influential article on the threat posed by Japan’s developmental model entitled ‘*Containing Japan*’, James Fallows captured the core of this sentiment stating;

²⁴ Such ‘network-building’ activities typically include; ‘resource targeting’ where funding is offered for projects aimed at solving specific technical problems within a given field, ‘opening windows’ in which general funding is offered for research projects that otherwise might not attract funding, ‘brokering’ which involves state officials bringing together different researchers and entrepreneurs with the goal of encouraging the creation of new commercial products, and ‘facilitation’ which involves removing legal and technological barriers in the way of the introduction of these products (O’Riain 2004; Block 2008; Block and Keller 2016). The developmental network state/ developmental bureaucratic state distinction is often made by scholars who distinguish two developmental tasks: that for a developing country of ‘catching up’ with the most advanced nations, and that for a developed country of staying at the technological frontier (Wong 2011). The former task, it is argued, is more easily achieved by the developmental bureaucratic state as there is a clear leader with a path of industrial development to be followed (Wong 2011). The latter task requires a developmental network state as here the goal is to build general innovation capacity (Block and Negroita 2016). The developmental network state is arguably also more compatible with a liberal political culture, which may explain why the hidden US developmental state is often seen as taking this form.

²⁵ There is some ambiguity as to whether even the classic East Asian developmental states really fit the stereotype of developmental bureaucratic states, with Wade for instance arguing that Taiwanese developmental capitalism always had a strong focus on network-building rather than direction (2004). It is certainly true however the Japanese and Chinese developmental states have most closely conformed to the developmental bureaucratic state model and have been perceived as doing so by American observers (Johnson 1982; Prestowitz 1988; Fallows 1994).

Japan and its acolytes, such as Korea and Taiwan, have demonstrated that in head on competition between free trading societies and capitalist developmental states, the free traders will ultimately lose. (1989,4).

He further argued in the same piece that;

Unless Japan is contained, therefore, several things that matter to America will be jeopardized: America's own authority to carry out its foreign policy and advance its ideals, American citizens' future prospects within the world's most powerful business firms, and also the very system of free trade that America has helped sustain since the Second World War (1989,6).

Underpinning these remarks are a set of ideas that are core to anti-developmentalism as an ideology:

1. *If developmental states and free market societies trade on a free basis, the free-market societies will be at a disadvantage and wealth and power, over time, will shift to the developmental states.* This will occur, it is believed, because supported firms in developmental states will 'out compete', or buy out competitors within critical targeted industries, meaning control over these industries will accrue to developmental states (Prestowitz 1988). Note that implicit within this idea is an assumption that developmentalists are right to regard some industries as more important to national wealth and power than others.
2. *Despite this disadvantage, it is either impossible or undesirable for the United States to construct a developmental state of its own and instead the US should remain a free market economy.* The inability of the US to construct a developmental state may be attributed to the lack of appropriate political institutions (Badaracco and Yoffie 1983) or to the more individualistic culture of the United States. Implicit here is a belief that the various investments the United States makes in science and technology are not regarded by anti-developmentalists as being the *same* as a developmental state. Why this is so will be discussed in paper three.

3. *To prevent a weakening of the United States - defined in terms of lower economic growth and the loss of basic or strategic industries - the US should promote rules at the international level to strongly discourage other nations from adopting a developmental state model and should employ protectionist trade policies to defend the US against major foreign developmental states.* As will be discussed in paper four, there is ambivalence among anti-developmentalists about what the goal of protectionism should be and whether the goal is to deconstruct foreign developmental states or merely to contain their effects. Nevertheless, a common theme among anti-developmentalists is that protectionism must be employed to deal with the challenge of foreign developmental states (Prestowitz 1988; Fallows 1989; Lighthizer 2008).

There is something perverse about seeing developmental states as effective in improving national wealth and power on the one hand, and yet on the other, opposing them on the basis that they cannot be constructed in the United States. Why not instead advocate deep reforms to the American political and economic structure to allow for a developmental state? Part of the answer here is that anti-developmentalists recognise there are some advantages to the American free market model. For instance, it produces more basic innovation because it allows freer competition and is more compatible with liberal-democratic values. The problem - as anti-developmentalists see it - is that when trading with developmental states, the economic advantages of free market societies are nullified; the basic innovations that these societies produce being sucked up by buy-outs and deleterious competition from state-backed firms. From the anti-developmental perspective, developmental states feed parasitically off more free market economies, weakening them and damaging their wider prospects for global economic growth. Developmental states in a sense are construed as ‘free riders’²⁶ taking advantage of the innovations produced from free competition elsewhere. The use of foreign economic policy to counter industrial policies is therefore seen as a way to solve such free-riding problems.

²⁶ This term refers to the so-called ‘free-rider problem’ in economics: namely that whenever any actor can benefit from a good or service without paying the cost for it, it risks undermining the production of this good or service (Hardin 2003).

Neoliberalism

Having defined both developmentalism and anti-developmentalism, one final term it is important to define is ‘neoliberalism’ as it is employed in this thesis. The slipperiness of neoliberalism as a concept in political science is legendary, and the literature discussing it is extensive (Cahill et al. 2018). Employed in a wide range of contexts, the term has been used to describe among other things, a tradition of political thought (Goldstein, D. 2012), a mode of governmentality (Foucault 2008) and a regime of accumulation (Jessop 2013). Consequently, any definition of neoliberalism is, inevitably, selective. In such circumstances the best a piece of research can do is to be as precise as possible about the usage employed.

As I define it, neoliberalism is first and foremost an attempt to reassert classical liberal values concerning the primacy of free-market competition, in the changed environment of the twentieth and twenty-first century. Classical liberalism was defined in large part by its commitment to free markets and limited government, and from a Polanyian point of view by an attempt to dis-embed markets from the surrounding society (Polanyi 2002; Block and Somers 2014). These commitments are shared by neoliberals and neoliberal thinkers - who see themselves as the heirs to classical liberalism (Kiely 2018). What distinguishes neoliberalism from classical liberalism however, is a recognition that many of the changes and social reforms classical liberals opposed – the establishment of welfare states, the growth of organised labour and the replacement of the gold standard with fiat money for example – are, at least in the short-term, irreversible and that it is therefore desirable to alter these arrangements in ways that move society closer to classical liberal goals. Neoliberalism is therefore defined by what Mirowski (2013) termed a ‘double truth’; on the one hand a utopian vision of fully dis-embedded markets and a minimal state and on the other a practical willingness to redirect state power in ways which move societies towards values of free-market competition.

As a corollary, many neoliberal thinkers have energetically sought to adapt ideas from twentieth and twenty-first century social science to support classical liberal values of limited government and free markets. Prominent examples of this include the development of ‘public choice theory’ by figures such as James Buchanan and its use to illustrate the likelihood of government failure (Tullock, Seldon, and Brady 2002). Neoliberals have sought to create new policy tools to achieve the same results as earlier classical liberal instruments. One notable example of this is the monetarist attempt to find a substitute for the gold standard in central bank independence

and automatic monetary and fiscal rules (Saad-Filho 2019). Perhaps most fundamentally, neoliberalism has been deeply invested in developing institutions – both at the national and international level – which will protect the free market from various modern forces, such as organised labour, popular democracy and anti-colonialism that helped to disrupt the *laissez faire* global capitalism of the nineteenth century.²⁷

One important point of discussion, that has characterised much recent literature on neoliberalism, concerns the neoliberal view of the state. Much of the work regarding ‘actually existing neoliberalism’, for instance, has emphasised how, in practice, the actions of purportedly neoliberal regimes have centred less on ‘rolling back the state’ than on *redeploying* state power in new ways (Brenner and Theodore 2002; Goldstein, D. 2012; Peck, Brenner, and Theodore 2018). Scholars have, for instance, distinguished between two waves of neoliberalism: a first wave during the late 1970s and early 1980s that focussed on privatisation and deregulation in areas where they were easier to achieve; and a second wave during the late 1980s and 1990s which focussed on ‘marketizing’ public services in cases where complete privatisation was impossible. Examples of such second wave neoliberalism include the new public management movement and the increased use of public/private sector hybrids in public service delivery (Ryan 2015). This transmutation connects to what scholars have considered the key to ‘neoliberal resilience’; namely the adaptability of neoliberalism as a paradigm and its willingness to adopt new policy ideas if they can be adapted into forms which can be viewed as preserving a market-based order (Berry 2019). Furthermore, scholars have often pointed out the willingness of some neoliberals to use the coercive power of the state to protect the free market. One could point, for instance, to the willingness of some neoliberals to support anti-union legislation, which potentially violates classical liberal notions of free association, to respond to the threat of organised labour (Jackson, 2016). Moreover, at an international level, Slobodian (2018a) has shown how neoliberalism championed the expansion of state-like powers to

²⁷ See Mirowski and Plehwe 2009; Kiely 2018; Slobodian 2018. The threat of egalitarianism and democracy to a liberal order was, of course, a major theme for some classical thinkers too, in particular Alexis de Tocqueville (it is noteworthy in this regard that Hayek initially wanted the Mont Pelerin Society to be called the Tocqueville-Acton Society). Yet, by the twentieth century, the threats that Tocqueville had warned about had become significantly more acute, and it was this environment that shaped neoliberal ideas. Slobodian in particular has emphasised that while in the nineteenth century the free movement of global capital had been protected by limits on the franchise and the global reach of European empires, by the mid-twentieth century the enfranchisement of the working class in the west and the impact of decolonisation had left these protections in ruins (Slobodian 2018a). Slobodian views the neoliberal project as essentially an attempt to find new ways to preserve and protect global capitalism, above all the right of capital to flow freely across borders.

international organisations such as the International Monetary Fund (IMF) and the World Trade Organisation (WTO) to check the tendency of nation-states to depart from free market principles.

Neoliberalism, in summary, then is understood in this thesis as involving:

1. A utopian belief in the primacy of the free market and in attendant values of the market such as competition and individualism.
2. A pragmatic belief that, given the infeasibility of fully reversing the expansion of state power in the twentieth century, state power should be *redeployed* to move society closer to market-based outcomes.

These ideas have come to play a dominant role in US politics since the Reagan administration of the 1980s. On the one hand, the post 1980s period has seen continual valorisation of free markets and scepticism of government intervention in public rhetoric. Although such rhetoric has emanated on the right, it has often been awarded subtle acquiescence from the left.²⁸ Meanwhile, although the American state has not in truth been rolled back to a desirable degree from a classical liberal perspective, policy has been reworked and redeployed in ways that aim to make it more consistent with market values. In the US, this has been seen, for example, in welfare through the rise of workfare programmes (Schram 2018); in education policy through the growth of school choice (Baltonado 2012); and in tax policy through reform changes that have shifted the burden of paying for the state away from the wealthy (Brownlee 2018). This dominance of neoliberalism at the level of public rhetoric and across many policy domains since the 1980s, is why this thesis sees a neoliberal policy paradigm as being established in this period.

The Argument in Brief

The central aim of this thesis is to gain a clearer understanding of the anti-developmental order that emerged in US foreign economic policy as well as its place within the wider political changes taking place from the 1980s onwards. Specifically, the thesis seeks to interpret:

1. The rise of an anti-developmental order in US foreign economic policy.

²⁸ A famous, (some would say infamous) example of this would be President Bill Clinton's declaration in his 1996 State of the Union address that the 'era of big government is over'.

2. How this order related to the contemporaneous emergence of a hidden US developmental state.
3. The way this order relates to the more general emergence of a neoliberal policy paradigm.

Based on the discussion of neoliberalism above, it may now be easier to comprehend why I understand this anti-developmental order, despite its close association with protectionism, as related to neoliberalism (Murdaco 2016; Nymalm, 2017). As I have noted, if a neoliberal policy paradigm is understood as one that employs the power of the state to enforce market-based practices, then employing punitive trade policies against developmental states is a natural element within a neoliberal foreign economic policy. From this perspective, the anti-developmental order within US foreign economic policy reflects the antipathy between developmentalist industrial policies and the neoliberal assumptions guiding policymakers. This is the argument put forward by Nymalm, who argues that US opposition to industrial policies in Japan and China ‘stem from them not adhering to the US model, while being economically successful on their own terms’ (2017, 911). A similar argument is put forward by Murdaco (2016) who argued that the focus on ‘fair trade’ that characterised calls for protectionism since the 1970s, can be understood as an attempt to make protectionism more *acceptable* in the face of the ‘deeply-held free trade ideology’ of neoliberalism. Similarly, I have previously argued that anti-developmental ideas, since the 1970s, can be interpreted as a kind of ‘neoliberal protectionism’ that seeks to punish states that depart from neoliberal policies to enforce a market-based global economic order (Wraight 2018).²⁹

While there is a great deal of merit in this interpretation, it is also somewhat incomplete. As I argue throughout the thesis, the anti-developmental order contains multiple assumptions regarding the potential efficacy of foreign industrial policies which are alien to the classical liberal tradition from which neoliberalism derives. As a result, I argue that it cannot be seen as a natural elaboration of neoliberal principles for an anti-developmental order to have emerged in US foreign economic policy, nor could that order be easily incorporated into a neoliberal

²⁹ This argument is somewhat akin to the argument made by Slobodian (2018a) who builds on longstanding critiques of international organisations such as the International Monetary Fund (IMF) to argue that twentieth century neoliberals sought to redeploy the coercive power of the nation-state at the global level in order to deter states from pursuing developmentalist policies and to secure global free trade and free movement of capital (Slobodian 2018a). The decision of American policymakers to deploy such coercive power unilaterally but for the same ultimate purpose could be seen as a variant of this ideology; an argument that Slobodian has himself made (2018b).

policy paradigm. The emergence of a kind of ‘hidden’ US developmental state in this period meanwhile belies the notion, suggested by Nymalm, that developmentalist industrial policies were inherently alien to the United States. Instead, a particular ideological process has made them distinct, allowing US policymakers to claim that American industrial policies are legitimate³⁰ in a way the policies of East Asian developmental states are not. To fully understand how the anti-developmental order was incorporated into the neoliberal policy paradigm in modern US politics, we need to dig deeper into the historical processes that produced it. When we do so, I argue, it becomes clear that a process of ideational reassociation, combining both liberal and developmentalist ideas was crucial in the emergence of that order.

The central argument of the thesis is that a process of ideational reassociation - combining developmentalist ideas about the effectiveness of industrial policy with liberal beliefs about their impermissibility in the US - helped produce the anti-developmental order in US foreign economic policy. I argue that the crucial moment in this process of reassociation was the industrial policy debate of the 1980s, out of which emerged a consensus that - although the US should not pursue its own industrial policy - it needed to take greater action against those policies pursued by other states. I further argue that out of this debate also came a ‘modified developmental state’ which relied heavily on private actors – notably the venture capital industry – to achieve developmental goals and which was consequently ‘hidden’ and thus not perceived to contradict the new anti-developmental foreign economic order. The thesis makes this argument over the course of four articles each of which contribute to the overall argument in the following ways.

Paper One: A Theory of Ideational Reassociation

The first paper develops the concept of ‘ideational reassociation’ that lies at the core of my argument. After reviewing the ideational literature in political science, it discusses how recent scholarship has become increasingly concerned with how ideas *move* gradually between different paradigms. This literature has developed new theoretical tools such as ideational power (Carstensen and Schmidt 2016; Carstensen and Matthijs 2018) and a new approach to ideas (Carstensen 2015b) to study this process. Drawing on this work, the paper seeks to build a

³⁰ Indeed, from the standpoint of many American policymakers they are not necessarily regarded as industrial policies at all (Block 2008).

theory of ideational reassociation that accounts for the different outcomes that ideas moving between paradigms can produce.

In particular, the paper argues that under certain conditions – specifically when assumptions from one paradigm are introduced to another without being entrenched in a wider network of goals and policy ideas – ideational reassociation is likely to take a form of ‘adaptive problem-solving’ with entirely new policy solutions emerging to resolve the tension between different paradigms. The paper concludes by discussing the relevance of this process to neoliberalism and developmentalism, outlining why the combination of liberal and developmentalist ideas might produce an anti-developmental order. The paper contributes to the overall argument of the thesis by:

1. Developing a theoretical framework for ideational reassociation.
2. Establishing theoretically why we might expect the combination of liberal and developmentalist ideas to produce anti-developmentalism.

Paper Two: ‘Making America Great’ (the first time): Conceptualizing the hidden US developmental state

An adaptation of this paper has been accepted for publication in **Nations and Nationalism (forthcoming 2022).*

The second paper discusses the historical conflict between liberal and developmentalist ideas in American political development and argues this laid the foundations for both the hidden US developmental state and the US anti-developmental order. The paper examines how the modern US developmental state is a composite of three separate orders: a states-based order established in the Early Republic; a federal government based ‘associationalist’ order located in the Department of Commerce at its height during the 1920s and 1930s; and a defence-based order based in the disparate set of institutions which make up the US national-security state. I argue that the tension between these orders and the desire for a more coordinated national industrial policy, helped produce the industrial policy debate in the 1980s – a critical moment in the emergence of US anti-developmentalism and the hidden US developmental state. The paper contributes to the overall argument of the thesis by:

1. Establishing that American political development has been characterised historically by the influence of developmentalist ideas.
2. Explaining the conditions that produced the industrial policy debate of the 1980s.

Paper Three: Rethinking the Industrial Policy Debate of the 1980s

The third paper discusses the industrial policy debate and the extent to which it produced the anti-developmental order in US foreign economic policy. Analysing the debate as it was conducted in Congressional hearings, particularly within the *Joint Economic Committee* (JEC), I argue that this debate constituted a moment when political actors on the left sought to establish a developmentalist policy paradigm as an alternative to the neoliberal programme represented by supply-side economics. In so doing, industrial policy advocates advanced three key ideas. Firstly, the notion of ‘strategic trade’, according to which, the imperfectly competitive nature of certain international markets meant that nations could secure economic and strategic³¹ advantages by investing in domestic national champions. Secondly, the idea of capital market gaps, where economic uncertainty would lead to a lack of patient capital to take on technologically advanced projects if such financing was left entirely to the private sector. Thirdly, the idea of developmental state-building which argued that, under certain conditions, it was possible for nations to build sufficiently autonomous and effective state institutions capable of conducting industrial policy without becoming captured by special interests. I argue that, over the course of the debate, these ideas were implicitly accepted by some advocates of the competing neoliberal policy paradigm but were refashioned to advocate for government support of the US venture capital industry as the best solution to capital market gaps. These advocates also argued that, while developmental state building may be possible in some states, it was not possible in the US given the porosity and fractured nature of the American state. The result, I argue, was that the triumphant neoliberal paradigm emerging out of the industrial policy debate was infected with ideas which served to increase concerns about foreign developmental states, ultimately producing an anti-developmental order in US foreign economic policy. The paper contributes to the overall argument of the thesis by:

1. Establishing how the industrial policy debate helped produce the anti-developmental order in US foreign economic policy.
2. Establishing how the industrial policy debate helped create the US ‘hidden’ developmental state.

³¹ Here ‘strategic’ refers to industries of particular diplomatic, cultural, or military importance.

Paper Four: Facing Trade Enemies Across the Pacific

An adaptation of this paper has been accepted for publication in **Foreign Policy Analysis (forthcoming 2022).*

The final paper explores in more detail the dynamics of this new anti-developmental order by comparing how US trade officials reacted to the industrial policies of Japan in the 1980s and 1990s, compared with those of China since 2000. It argues that, in the conflict with Japan in the 1980s and 1990s over industrial policy, American trade strategy could be understood as ‘results-oriented’. In essence, US trade strategy focused on securing defined shares of markets for American firms, thereby mitigating the perceived barriers to trade that came with the industrial policies of the developmental state. By contrast, the paper discusses how, in the recent trade war between the US and China, US strategy has become highly ‘rules-oriented’ - centred on the negotiation and enforcement of rules to constrain foreign industrial policies. This transformation in US strategy has significant implications in that it implies a negotiating stance potentially more hostile and more permanently antagonistic to the developmental state. The paper contributes to the overall argument of the thesis by:

1. Showing how the anti-developmental order has evolved since its inception.
2. Exploring the consequences this evolution has had for US foreign economic policy.

Reflections on theoretical approach

The argument of the thesis reflects a particular standpoint on American Political Development (APD),³² the role of ideas within it³³ and the nature of American liberalism. The papers draw on a longstanding tradition that regards liberal ideas and institutions as playing a central role in US politics. Although this view has been expressed by many scholars, it is especially associated

³² APD emerged as a discrete intellectual project in the 1980s and is closely associated with the general emergence of historical institutionalism. As with historical institutionalism, APD places a great emphasis on the role of timing and sequencing in explaining political phenomena and seeks to interpret contemporary outcomes in American politics by reference to the historical development of the United States (Kersh 2005, 335). Embracing the invocations of Skocpol and others to ‘bring the state back in’ (Skocpol 1985) APD has been especially concerned with developing conceptual tools through which to understand the American state and the ‘durable shifts of governing authority’ within that state over time.

³³ Although never overly hostile to the claim that ideas matter, it is certainly true that much early APD scholarship was more focussed on studying institutions in themselves with less speculation on the wider ideas, expressed for instance by intellectuals in political texts, that surrounded such institutions. The place of ideas within APD and of the level of attention that APD researchers should pay to American political thought has come to command increasing attention however (Smith, 2014), perhaps reflecting the wider ideational turn in political science.

with the ideas of Louis Hartz in his classic work *The Liberal Tradition in America* (1955).³⁴ Hartz famously argued that American political development had taken place within an overarching ‘liberal consensus’; committed to values of egalitarianism, individual liberty and free market competition.³⁵ He claimed that the influence of this liberal tradition explained many puzzles of American political development, including the power of the Supreme Court, the early adoption of universal white male suffrage, and the rise of progressivism and the New Deal (rather than socialism) as a response to the problems of industrial capitalism. So great was the American commitment to liberalism and so unfamiliar were non-liberal ideas to the American mind that, according to Hartz, the US tended to react to foreign non-liberal societies in an unreasonably hostile way. For instance, he interpreted the excesses of American anti-communism during the early Cold War as a result of the way socialism seemed to challenge the basic liberal values of American political culture.

Hartz’s arguments have been subject to a steady barrage of criticism, with many arguing that he overstated the influence of liberalism (Pocock 1975; Kloppenberg 2010), neglected the legacy of feudalism (Orren 1992), understated the importance of racist and white supremacist ideology as a challenge to liberalism (Smith 1993) and, more generally, viewed ideas as too unmoored from their institutional surroundings and constraints (Gunnell 2005; Monroe 2005; Kloppenberg 2010). As an explicit alternative to Hartz’s ‘liberal society thesis’, Smith proposed that the role of ideas in APD is best understood through a ‘multiple tradition framework’ within which liberalism is just one of a series of ideological traditions along with white supremacy and others which have influenced American political development (1993). On the other hand, several scholars - while accepting the many weaknesses within Hartz’s account - still maintain that his broad focus on liberalism as a central object in American political development is compelling (Greenstone 1993; Ericson 2000). They have sought to reinterpret the American liberal tradition and its influence ‘in ways that start with Hartz and yet go beyond his highly reified understanding of American liberalism’ (Ericson 2016, 21).

³⁴ For discussion on Hartz’s influence on APD see (Hullington 2010), as well as the colloquium to mark the 50th anniversary of *The Liberal Tradition*, held by the journal *Studies in American Political Development* (Monroe 2005; Gunnell 2005).

³⁵ Hartz attributed this liberal hegemony to the fact that the United States lacked a feudal heritage and therefore lacked a strong clergy or aristocracy to oppose liberal political values. He further argued that secondary factors, in particular, the availability of land in the United States had played an important role.

This thesis is in sympathy with such viewpoints and offers what I would describe as a ‘neo-Hartzian’ perspective on APD. Whilst not regarding liberalism as the only important tradition in the United States as Hartz suggested, I maintain that a good starting point for many questions in APD is to consider the interaction between liberal and non-liberal political orders. Liberal ideas and institutions, I argue, have rarely been hegemonic yet they have been sufficiently powerful that non-liberal ideas and institutions have often been forced to adapt to fit with these dominant ideas. This helps explain why in American history various illiberal policies are often deployed ‘in the name of liberalism’ (King, 1998) with proponents developing novel (and often highly creative) rationales for why such policies fit within a liberal ideological framework. A good example of this adaption has been the politics of race in the United States, within which, as recent work has shown, policy change has frequently been driven by the tension between liberal/egalitarian versus racist/white supremacist orders.³⁶ This view of American political development as driven by the tension between liberal and non-liberal ideas is what informs the core argument of this thesis; that the anti-developmental order in US foreign economic policy is a product of the tension between liberal and developmentalist ideas.

My focus on the interaction of liberal and non-liberal orders as driving policy change also mirrors the wider emphasis on intercurrency and ‘multiple orders in action’ within APD research. A central insight of APD is that American government has been built on recurrent waves of state-building with new institutions established in the Progressive Era transforming, but not entirely displacing, the earlier state structures established during the American founding (Zelizer 2003). This uneven, variegated process of state-building is seen within APD as rendering the United States an ‘intercurrent polity’ which ‘sponsors incongruity as an essential feature’ and in which ‘positive law-making operating in one sphere, is likely of its own accord to expose and undermine contrary principles...operating elsewhere’ (Orren and Skowronek 2004, 182). It is therefore often the tension and conflict between multiple orders within the

³⁶ The undeniable centrality of racism in American politics has often been a prime point raised against Hartz’s liberal society thesis. Yet arguably what has given US racial politics its unique characteristics has in large part been the interaction between liberal and racist ideas. For instance Hartz and others argued that before the Civil War, many white supremacists sought to reconcile slavery with liberal ideas of human equality by denying the humanity of their slaves, leading to a slave system more rigid than those that existed in much of South America (Hartz, 1964; Ericson 2016). After the Civil War, southern whites again sought to reconcile their social order with liberal-egalitarian values by advancing the principle of ‘separate but equal’ segregation. In these ways, US racial politics provides an instructive example of how institutional change in the United States has been driven by the interaction of liberal and non/liberal ideas.

American state that drive policy change. In focussing on the conflict between liberal and developmentalist orders as a driver of US foreign economic policy, this thesis is closely aligned with this approach.

Such issues concerning the different ways liberal and non-liberal ideas interact in turn raise the more general question of what Skowronek (2006) termed, ‘the reassociation of ideas and purposes’. Since ideas from different traditions and orders seem capable of interacting in multiple ways, often with radically different implications, it is important to consider what determines those interactions. APD at present, in my view, has a limited vocabulary to discuss such issues since, despite the growing interest in ideas in APD, there has been little nuanced discussion of the different *kinds* of ideas, the different *forms* of ideational change or of the circumstances which determine when or where ideas gain influence. These questions have been advanced within the wider ideational literature in political science that has developed sophisticated theories of ideational power and ideational change. In my first paper I seek to draw on these insights to construct a theory of ideational reassociation applicable to APD. This theory, along with making more intelligible how liberal and developmentalist ideas have interacted in American history, is useful for analysing the interaction of ideas within American political development.

Reflections on methodological approach

As with much research within APD, this thesis relies on historical comparative research methods³⁷ to trace the emergence of a new policy order (in this case anti-developmentalism). After the first theoretical paper, each subsequent paper focuses on a particular historical period representing an important stage in the emergence of US anti-developmentalism. Employing thick description and aspects of comparative case study, the papers trace a process of institutional and ideational change, culminating in the rise of an anti-developmental policy order. Taken together, the papers constitute a historical narrative that tells a story of what

³⁷ Historical-comparative research methods; part of the broader family of comparative-case study research, involve the comparison of different cases of a social phenomenon across time and space. (Lange 2013, Demetriou and Roudometof (2020). Closely associated with theoretical perspectives such as historical institutionalism and APD, they have a reputation for being invoked to assist in the generation of macro-scale social theories, and were famously described by Tilly as involving ‘big structures, large processes, and huge comparisons’ (1984). Despite these associations however, historical-comparative research methods can be used to study social phenomena at the medium, or even micro-scale.

American anti-developmentalism is, how it differs from other justifications for protectionism and precisely how it grew to be so influential.

My focus on narrative, thick description and historical context is reflective of an interpretivist ontology that emphasises how the proper conceptualising of a social phenomenon is often as formidable a task as its explanation. From an interpretive standpoint, much of social science research involves reconstructing the meaning of ideas and institutions as articulated by the actors who operate them (Geertz 1973; Bevir and Blakely 2018). This, in turn, requires attending to the intellectual genealogy and historical milieu that produced these social forces. Consequently, a large element of this research has been concerned with recovering the meaning of anti-developmental ideas through a contextualist reading of historical events. Such interpretation requires and dovetails with the historical and comparative methods employed in the thesis.

Although this thesis constitutes a single-country and ‘within-case’ study (Lange 2013, 54), being concerned with explaining a specific policy order in US foreign economic policy, it nonetheless engages in comparative case study across time. Such a methodological strategy has long been recognised. As Haydu (1998) argued in his influential article *Making Use of the Past*,

Sociologists and historians routinely divide the past into temporal chunks...These periods can be viewed as separate cases and comparing them has much in common with comparing social institutions...or processes that occur in different places (1998, 334).

Following this logic, each of the papers (excluding the first, theoretical one) compare ideas and institutions during distinct historical periods. In the case of paper two, the cases are separated by considerable expanses of time as I seek to compare developmental state-building efforts in the United States during the early eighteenth, nineteenth and twentieth centuries. In the other papers the cases follow on more directly; paper three contrasts the role of developmentalist ideas in the ‘industrial policy debate’ of the 1970s/80s and the immediately succedent ‘competitiveness debate’, while paper four compares the 1980s era trade war with Japan to the closely related contemporaneous conflict with China. In all the papers, the goal is to identify

subtle variations in closely related cases and therefore to trace change and development in the emergence of an anti-developmental foreign policy order.³⁸

Although comparative case analysis across time shares much with comparative case analysis across space and national boundaries, there are several unique considerations which merit discussion. Firstly, comparative analysis, as articulated for instance in Mill's 'method of difference', and 'method of agreement' rests on the aping of experimental conditions by having different cases be both 'equivalent' and 'independent' (Mill, 1843). In other words, different cases should be both sufficiently similar to make comparisons meaningful, and sufficiently independent that one could not have influenced the other. Such conditions, challenging as they can be in comparisons across space, become especially exacting in comparisons across time. Firstly, the profound social/cultural changes that separate the past from the present - especially over long expanses of time - make it especially difficult to view different cases as *equivalent*. Secondly, the fact that later time periods are always influenced by preceding events - the very purpose of historical comparative research is often to show influence - makes it nigh on impossible for cases to be independent. As Haydu notes;

A methodology that requires independence between cases can thus be applied to different time periods only by disregarding the influence of the past on the present or by choosing periods so remote in time as to make the comparison dubious (1998, 339).

The result is that comparative research across time must be conceptualised somewhat differently than across space. A frequent recommendation is that historical-comparative researchers consciously employ narrative, thereby making explicit the links between different time periods. Such use of narrative can be buttressed by techniques such as event-structure analysis (Griffin and Korstad 1998), or process-tracing (Jacobs 2015) which aim to provide sure footing for causal claims made within historical narratives. Haydu (1998) additionally has usefully argued that such narratives should be organised in a way that treats different cases as 'iterative attempts at problem-solving', with policymakers facing a common, evolving problem across different

³⁸ The papers therefore are closer to the '*Most Similar*' approach than to the comparative method where similar cases are compared in the hopes of identifying salient differences. This stands in contrast to the '*Most Different*' approach where radically different cases are compared in order to identify commonalities. Cases are compared in the hope of revealing unrecognised commonalities (Lange 2013, 23).

periods of time and developing distinctive solutions towards it. For instance, Haydu shows how successive US industrial relations regimes can be fruitfully compared in terms of how they sought to solve a continuing set of problems in management labour relations.

In this vein, the various papers of this thesis likewise make comparisons across time periods in which policymakers were grappling with a particular set of problems. In the case of paper two, the problem was how to create a structure to promote national development within a constitutional system not conducive to conventional developmental state-building. In paper three, the problem was how to restore American competitiveness in the face of foreign industrial policies, and in paper four the problem was how to manage trading relations with foreign developmental states. Each paper similarly tells a story about how - in the face of these related problems, new solutions emerged and were generated over time.

Given its historical character, this research project also naturally relies on the analysis of recorded text. In the selection of sources, I have been influenced by Skocpol's 'targeted primary approach' (Skocpol, 1984) which relies on extensive reading of secondary sources to gain contextual awareness of a period, then uses selective primary sources to 'fill in' remaining gaps. Papers three and four draw on recorded testimony given by officials and public intellectuals during US Congressional hearings. My approach to studying these sources has been influenced by the contextualist approach to textual interpretation often referred to as the 'Cambridge School'.³⁹ This approach centres on the idea that the meaning of a text is always given by the historical circumstances in which it was constructed. Historical texts, therefore, must always be read in the context of other documents produced at the same time and in terms of the broader issues of a given period - both to grasp the potential purposes of the text and the particular 'language game' within which actors are located. Such reading requires close attention to the details of language, and in particular the isolation of 'idioms, rhetoric, ways of talking about politics' that constitute a distinct sub-language which 'may have its own vocabulary, rules, preconditions and implications, tone and style' (Pocock 1975, 31). Such a contextualist approach necessarily requires broad knowledge about the general period in which given ideas and institutions were established and gaining such familiarity requires extensive engagement with secondary literature.

³⁹ This approach is associated in particular with Dunn (1969), Pocock (1975) and Skinner (1978).

In some research projects the appropriate methods to study a question are clear. In other cases, the right choice is often less obvious and there are various trade-offs to consider, especially when the constraints of time and money during a three-year PhD programme mean that going down some paths requires abandoning others. There was undoubtedly an alternative version of this thesis to be written that relied less on historical investigation and case-comparative research and more on ethnographic research methods involving interviews with contemporary actors in US foreign economic policy. There might also have been an alternative version of this thesis that employed more quantitative approaches to document analysis. Both these imaginary alternatives have merit but pursuing them properly would have substantively curtailed my engagement with the historical reading necessary for this project and its interpretive ontological approach. This, I believe, would have harmed my ability to produce a convincing historical narrative on the origins of US anti-developmentalism, showing the linkages between historical US developmental state-building, the industrial policy debate of the 1970s/1980s and contemporary US anti-developmentalism. Taking this into consideration the focus on thick description and historical-comparative methods was the appropriate choice for this project.

Reflections on the significance of the research

As I conceive it, this project makes three main contributions. Firstly, it enhances our understanding of recent US foreign economic policy, specifically as regards East Asia. US trade policy since the 1970s, although in many respects marked by continued commitment to liberalisation, has been characterised by a ‘new protectionism’; one defined by the increasing use of aggressive unilateralist action to counter supposedly ‘unfair foreign trade practices’. To explain this new protectionism, International Political Economy (IPE) scholars have examined the changing place of the United States in the global economy (Krasner 1976; Giplin, 1987) and how structural changes in the US economy have created new ‘losers of globalisation’ at the societal level (Autor, Dorn and Hanson 2016; Rodrick, 2017). Less research however has focussed on the role of ideational factors at the elite level in explaining this rise. Thus, at a time when constructivist approaches to IPE – centred on the power of discourse and ideas in explaining economic policy decisions – have been forging ahead in nearly every area of the study of US foreign economic policy⁴⁰ there has been a remarkable silence on the role of ideas in

⁴⁰In particular, work by Goldstein (1993), Hiscox (1999) and (Chorev 2007) has convincingly demonstrated the crucial role that ideas played in moving the United States towards a liberal trade regime from the 1930s onward.

explaining this new protectionism. This is unfortunate, as it may, in some cases, have led the US trade policy literature to default to overtly materialistic or rational-actor explanations for the shift towards protectionism which although often enlightening, sometimes run the risk of being reductionist. By arguing that much of the new protectionism is best characterised as part of an anti-developmental policy order and that this order was produced by the reassociation of liberal and developmental ideas, this project demonstrates the importance of ideas for explaining the new protectionism in US foreign economic policy.

Related to this, the thesis also helps cast light on the distinctively American response to the ‘Asian Century’. Scholars have suggested that the preeminent geopolitical fact of the twenty-first century is the continued ‘rise of Asia’ as the global economy’s centre of gravity (Gandhi 2007; Rachman 2016; Lee J.W. 2018). This process, intimately connected to the broader process of globalisation, involves tremendous transformation in global markets, industries and business relations. Perhaps just as significantly, in the long run, it involves the transformation of ideas and norms of global governance – with Asian ideas on how to manage economies becoming increasingly prominent and brought into dialogue (and conflict) with western notions of economic management. How western powers, in particular the largest and most influential of them, have responded to the East Asian developmental state – which of course departs dramatically from traditional western ideas on the proper role and limitations of government – is a question of critical importance in understanding the geopolitical forces shaping the future of the global economic order (Wade 2004; Gabusi 2017). It is here also that the thesis makes a contribution.

As a second contribution, this project speaks to contemporary debates regarding the place of developmental policies in American political economy. A common contention in recent literature is that the US has a kind of developmental state, but that this state is highly distinctive, being ‘hidden’ to the point that its influence is often imperceptible (Block, 2008; Mazzucato, 2013; Block and Keller, 2016; Wade, 2017; Quinn, 2019). Less work has been undertaken to understand the process behind this unusual form of developmental state-building or how it relates to the broader dominance of neoliberal ideas in recent US politics. In this thesis, especially in papers two and three, I argue that US developmental state-building was powerfully shaped by the interaction of developmentalist and liberal ideas in ways which contributed to the submergence of US developmental policies. A tendency to employ private actors rather than

state actors as the delivery mechanism for developmental policies, culminated - after the industrial policy debate of the 1970s/80s - in placing the venture capital industry at the centre of the US innovation system. I also argue that conflict between different orders within the US developmental state contributed to keeping that state hidden by blocking moves towards centralisation and coordination. In making these arguments the thesis provides, I hope, a more complete picture than those provided in existing accounts, as to why the American form of developmentalism has such unique characteristics.

A third contribution of the thesis lies in advancing our understanding of ‘neoliberalism’ both in the United States and elsewhere. I aim to show that the neoliberal policy paradigm in the United States has been shaped by the challenge of developmentalism from the very moment of its construction; and that an important element of that paradigm – an anti-developmental foreign economic policy order – was shaped by the reassociation of liberal and developmentalist ideas. This argument offers new ways of conceptualising neoliberalism generally. As discussed above, recent researchers have increasingly argued that neoliberalism is not a mere recreation of classical liberalism but rather an adaptation of those ideas to reflect modern conditions and confront modern problems. I argue that what is needed to advance this view of neoliberalism further, are studies that examine in practice *how* this adaptation takes place; in other words, studies that focus on the circumstances and processes that lead neoliberal actors to rework and redeploy classical liberal ideas. This thesis suggests that ideational reassociation is often a crucial underlying mechanism. Neoliberal policy solutions, I argue, are often the product of ideational reassociation, emerging when classical liberal ideas are fused with non-liberal ideas leading to a process of adaptive problem-solving to resolve ensuing tensions. The thesis therefore points towards a new way of understanding neoliberalism as it exists in practice.

As a final point, the research for this thesis has been conducted with an eye towards understanding the foreign economic policy of the Trump administration. In an administration that arguably, in policy terms, proved less disruptive than initially expected, trade policy stands as one of the principal areas where Trump took dramatic steps to move US policy in a substantively more protectionist and unilateralist direction. With the Trump Presidency now over, no one can ascertain with confidence how much of his trade policy will remain. Certainly, on China, some initial signs from the Biden administration do suggest the Trump administration marks not a temporary blip, but the beginning of a widespread bipartisan move towards a harder

stance against Chinese developmental capitalism.⁴¹ Regardless, as scholars seek to take stock of the Trump administration and what it portends for the future, one important task will be to analyse and understand the ideas that justified its radical actions on trade. By outlining the emergence of anti-developmentalism and tracing its articulation from the 1970s to the Trump administration, this thesis, I hope, contributes to that important goal.

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⁴¹ This stronger stance against Chinese industrial policies is of course also part of a wider move towards increasing recognition of China as a great power rival.

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Paper One

Towards a Theory of Ideational Reassociation

The question of how ideational conflict is managed within political institutions is an important issue that remained largely side-lined in the first wave of ideational literature. Recent discussions of bricolage and ideational power, however, offer a potential way forward in better understanding ideational conflict. Based on these advances, this paper develops a theory according to which actors manage conflict between competing sets of ideas by recombining their constituent elements in new ways. The paper further argues that the process and effect of these changes will differ based on the types of ideas recombined. To illustrate this, the paper provides a series of short case studies on how neoliberal and developmentalist ideas have been combined in recent political history. An important conclusion of the paper is that while efforts to manage conflict might be assumed to have a 'moderating effect' – diluting the policy prescriptions of a given policy paradigm – they can also have a 'radicalising effect'; causing a paradigm's policy prescriptions to be more aggressively enforced.

Introduction

How are conflicts between opposing ideas managed or resolved within political institutions? Although this question is of central importance to understanding the role of ideas in politics, it is also one to which surprisingly little attention has been paid. The first wave of ideational literature in the 1990s, following on from the 'ideational turn' in political science (Blyth 1997) largely skirted the question of conflict, focusing instead on how ideas were used to stabilise political institutions (Sabatier, 1988; Hall 1993; Freedman, 1998). The second wave of ideational literature meanwhile, while greatly progressing our understanding of *how* actors alter and reformulate ideas, has not yet fully addressed how such actors handle conflicting ideas. There is a need to further investigate how ideational conflict is managed, particularly in regard to politics such as the United States characterised by deep conflicts between opposing ideological traditions.

This paper seeks to develop a basic theory of how ideational conflict within political institutions is managed and resolved. Drawing on recent research on 'bricolage' (Carstensen, 2011), I argue that a key means through which actors manage conflict between opposing sets of ideas - or policy paradigms - is to 'reassociate' their constituent elements into new relations, thereby

creating ‘ideational hybrids’. Drawing further on research into the varied role of ideas in politics (Mehta 2010), I argue that the form this reassociation takes will depend in large part on the *type* of ideas that are being reassociated. To illustrate the effects of these processes, the paper examines several cases involving conflict between neoliberal and developmentalist ideas around industrial policy.⁴² In each of the cases discussed actors sought to combine elements of opposing paradigms in some way or other.

For example, I argue that, on some occasions, actors will seek to combine complete nexuses of ideas - with each nexus containing well developed assumptions, values, and policy prescriptions - into one hybrid paradigm. In such cases, reassociation will take the form of what I have termed, ‘**fencing off**’ with actors delimiting and defining distinct policy domains in which each nexus applies. To illustrate this, the paper considers British economic policy in the 1990s when the Major government tried to practice both neoliberalism and industrial policy in a siloed manner - assigning to industrial policy the responsibility for addressing ‘market failure’.

The second case of the paper illustrates what happens when actors take a specific policy prescription from one paradigm and integrate it into another - leading to a kind of ‘**reworking**’ where the policy in question is altered and adapted to fit within the framework of the wider paradigm. An example of this can be seen in British economic policy post 2010, where the UK government has utilised industrial policy measures such as sectoral deals to achieve neoliberal goals such as privatisation, deregulation, and increased competition.

A third case, concerned with South Korean economic policy in the 2000s, discusses what happens when we see actors taking a goal/problem frame from one paradigm and integrating it with another, leading to a process I have termed ‘**rejustification**’. In South Korea for example, the government embraced developmentalist goals of national competitiveness and autonomy but argued that neoliberal policies such as deregulation and privatisation could be used to achieve them. A final and particularly interesting case for the purposes of this thesis involves actors bringing a basic assumption about society or economics from one paradigm *into* another. This I

⁴² By ‘industrial policy’ I refer to targeted government interventions designed to promote economic development by altering the structural composition of the economy (Chang, 1999; Block 2008). Such interventions have been strongly promoted within developmentalist policy paradigms and, at least traditionally, strongly opposed by neoliberal paradigms as unwarranted infringement on free market activity (Block and Summers 2014; Williams, 2014).

suggest often leads to a process of ‘**adaptive problem-solving**’ where the acceptance of new assumptions leads to the identification of previously unrecognised problems and ultimately to new policy prescriptions as a means to address these problems. The final case I use to explore this concerns American economic policy during the 1980s - when the so-called ‘industrial policy debate’ brought developmentalist and neoliberal ideas into direct conflict. The result was a kind of adaptive problem-solving through which it was accepted that industrial policies could, under certain circumstances, improve a country’s economic and strategic competitiveness, and this was used to justify greater action against the ‘threat’ to the free market posed by foreign industrial policies.

In advancing this argument, the paper shows the variety of forms that managing ideational conflict through reassociation can take. There is a tendency to assume that when opposing policy paradigms are integrated into a hybrid the result must be a moderation of each paradigm’s initial commitment. For example, when developmentalist ideas are integrated into a neoliberal paradigm it might be assumed the effect would be to dilute neoliberal commitments and create a hybrid closer to developmentalism. In this paper, and specifically through the discussion of adaptive problem-solving, I aim to show that this is not always the case and that instead the introduction of ‘foreign’ ideas to a paradigm can have a ‘radicalizing’ effect, creating a more militant commitment to the paradigm’s original policy prescriptions. I argue that a greater recognition of the process of adaptive problem-solving has implications for the study of neoliberalism and of ideas in politics generally.

The paper proceeds in the following manner. In the literature review I discuss how traditional approaches to ideas in politics, such as Hall’s (1993) policy paradigm approach and the advocacy coalition framework (Sabatier and Jenkins-Smith 1993) cannot fully explain how ideational conflict is managed and resolved. I further discuss how the concept of reassociation may be useful in solving this problem but needs to be further elaborated to do so. Following this I construct a basic theory of ideational reassociation by employing the relational approach to ideas and a typology of ideational sub-types drawn from Mehta (2010). I argue that the nature of reassociation will differ based on the *type* of ideas being integrated and that this will have a moderating and sometimes, a radicalising effect. Finally, in part three, I set out an example of how this could be applied through a case study of neoliberal/industrial policy ideational reassociation.

Literature Review

The question of how political institutions manage and resolve ideational conflict is a fundamental one for the political science literature on ideas. It is generally acknowledged that conflict between opposing ideas is a central feature of politics, and that many, if not all, political institutions are influenced by an array of potentially conflicting ideas. It is also widely acknowledged that, in the words of Abraham Lincoln, ‘a house divided against itself cannot stand’, and certainly a host of organisational studies literature attests that those organisations divided over basic beliefs and values are often dysfunctional and unstable (Thurbon, 2003; Ongori, 2008). This is not to say that political institutions cannot survive and thrive in the face of persistent ideational conflict. To the contrary, many would rightly argue that the dynamic tension between opposing ideas can be of immense value in generating innovations and adaptation (Dagostino, 1999). However, for ideational conflict to be constructive and not destructive to political institutions there must be mechanisms to manage and resolve such conflict. Understanding what these mechanisms are should therefore be an important task for political scientists, particularly those studying societies such as the United States, the political institutions of which have been shaped by conflict between opposing ideological traditions.⁴³

Nonetheless, the first wave of ideational literature in political science in many ways skirted the issue of ideational conflict. This can be seen most clearly in the influential ‘policy paradigm’ framework introduced by Hall (1993). Adopting a Kuhnian theoretical framework, and acceding to the notion that functional institutions will be free of severe ideational conflict, Hall argued that - in normal times - policymakers within a given domain will be guided by a shared set of basic assumptions, goals and policy ideas. These shared ideas, Hall referred to as a ‘policy paradigm’ and he emphasised that any given paradigm was stable, coherent and, incommensurable with any other competing paradigms. In normal circumstances, Hall argued a paradigm enjoys unconditional (and largely unconscious support) and it is only occasionally - with the build-up of ‘policy anomalies’ that a paradigm cannot explain - that the paradigm is

⁴³Claims that the American politics have been shaped by conflict might once have seemed outlandish with the so-called consensus scholarship of the 1950s arguing US political development had occurred within a liberal consensus (Hartz, 1955). However, recent scholarship within APD has instead pointed to the conflict between different ideological traditions (Noel, 2014), especially the conflict between liberal and racist ideas as a powerful driver of American politics (Orren 1996; Smith 1999; King and Smith 2005). Moreover, while of course all states are characterised by ideological conflict, it could be argued that the way the American state is characterised by the frequent overlapping of institutions - what Orren and Skowronek (2004) referred to as the intercurrency of ‘multiple orders in actions’ - causes the management of ideational conflict between these institutions to take on special importance (Smith 2014).

destabilised, and policymakers consider other opposing ideas. This period of flux is resolved either by the establishment of a new paradigm or by the reassertion of the original. Within Hall's framework therefore, it is assumed that serious ideational conflict simply does not occur in normal times, and that when it does occur it is resolved by the straightforward 'victory' of one paradigm over others.

At first glance the 'advocacy coalition framework' - perhaps the most prominent alternative to Hall's policy paradigm approach, might seem to place a greater emphasis on ideational conflict. In contrast to Hall, who saw policy domains as dominated by one ruling paradigm, the advocacy coalition framework sees most policy domains as characterised by competition between two or more competing 'advocacy coalitions' (Sabatier and Jenkins-Smith 1993). Within this framework policy outcomes are shaped by the relative power of these coalitions and by the activities of 'policy brokers' who negotiate compromises between the different coalitions. The advocacy coalition framework therefore, emphasises brokerage and compromise as the key mechanisms through which conflict is managed, as opposed to the patterns of domination and replacement central in Hall's 1993 account. While the advocacy coalition framework suffers less from being a 'punctuated equilibrium model' (Cairney and Weible 2015) and recognises the persistent state of ideational conflict that characterises politics, the emphasis the framework places on such conflict is more superficial than it may at first appear. A key contention of the framework is that the 'core beliefs' of advocacy coalitions are not subject to frequent change or interrogation, and that all brokers can do is negotiate compromises between the policy ideas of the different coalitions. Such negotiations are further understood to often be more the result of realpolitik considerations and reflections on the institutional playing field associated with different environments, as opposed to a result of deeper engagement with managing opposing ideas. Core ideas within advocacy coalitions can change, but generally only when wider conditions in society (mediated by the effect of brokered policy outcomes) *cause* the core ideas to change. The traditional advocacy coalition framework, therefore, as much as Hall's policy paradigm approach, largely ignores the possibility of actors seeking to combine and manage the core ideas central to opposing worldviews.

A third major approach to ideas in politics originating in the 1990s, the morphological approach to ideologies, can similarly be viewed as downplaying the importance of ideational conflict. Developed primarily by Freedman (1998) the morphological approach makes a distinction

between ‘core concepts’ the values of which are ‘de-contested’ in a belief system and other, contestable ideas. Liberalism, for instance, might be understood as having a core concept of ‘liberty’ the value of which no liberal would contest. A series of contested secondary values, such as ‘competition’, or ‘economic equality’ would then be accepted or rejected by different liberals, creating numerous variants within the ‘liberal’ ideological family. In this way the morphological approach to ideology also assumed that ideational conflict within political institutions would be a limited affair, largely fought over secondary values, while the uncontested core of ideologies was protected from direct assault.

There seems then to be a common theme within the ‘first wave of ideational literature’ of neglecting the issue of ideational conflict. Whether focussed on domination and replacement (Hall, 1993), brokerage and compromise (Sabatier and Jenkins-Smith, 1993), or morphology and decontestation (Freeden 1998), all the most influential approaches seem to dodge the question of how political institutions handle deep ideational conflict. It is consequently with the second wave of ideational literature, since the late 2000s, that we see the development of conceptual frameworks better suited to understanding ideational conflict.

In broad terms, the second wave of ideational literature has been concerned with the questioning of excessive stability, the understanding of gradual as well as sudden change, and the exploration of the agency of actors in manipulating ideational elements (Hay 2010; Schmidt 2010; Carstensen 2011; Carstensen and Schmidt 2016). One useful concept within this literature has been the notion that actors do not passively accept the existing ideational frameworks they encounter or the established boundaries between different policy paradigms, ideologies, orders, or advocacy coalitions. Instead, they actively alter and rearrange them to suit their needs. Carstensen (2011) understands this process in terms of ‘bricolage’ on the part of actors, while Hay (2011) talks of ‘inter-paradigm borrowing’ and Skowronek (2006) has discussed the reassociation of ideas between different ideational traditions. Hogan and Howlett (2015) meanwhile, have talked of the need to relax Hall’s ‘incommensurability assumption’ – the idea that different paradigms are largely separate and do not interact and to instead consider how multiple paradigms can coexist and influence each other. One key conclusion that follows from such work is that the interaction of different ideas often produces ‘*hybrids*’ combining elements of both. The idea of such hybrids has particularly been applied to the study of neoliberalism and to the question of why neoliberal regimes appear so durable in the face of

ideational challenges. This scholarship on neoliberal resilience emphasises how actors often successfully integrate opposing ideas within neoliberalism creating distinctive neoliberal hybrids. Schmidt and Woll for example, argue that the conflict between neoliberal and statist ideas ‘has produced a new reassociation that we call liberal neo-statism’ (2014, 113). Ferrara has similarly argued in the domain of welfare that neoliberal ideas have been joined with justifications for a welfare state to create a reassociation of ‘liberal neo-welfarism’ (2014, 77). Carstensen and Mattjis (2018) meanwhile, in their study of British macroeconomic policy since the 1990s, identify several ‘varieties of neoliberalism’, born from the combination of free market ideas with ideas of industrial policy.

Such approaches suggest that one key way actors manage ideational conflict within political institutions is to combine elements of competing ideas to produce ideational hybrids. Yet there is still the question of how such a process of combination really works in practice, for example where ideas are in fundamental conflict and cannot be combined or integrated. Of course, the notion that any ideas are in fundamental conflict may be questioned. For constructivist minded scholars such as Hay (2010) and Blyth (2013) all ideological conflicts can be seen as socially constructed and potentially resolvable. Yet for scholars more inclined to believe that there are inherent inconsistencies between certain ideas, the question of how conflicting sets of ideas can be integrated requires further elaboration.

The integration of opposing ideas may also have important implications if we consider the ‘relational theory of ideational change’ (Carstensen, 2015). With its origins in relational sociology, this theory assumes that the meaning of any ideas is in part defined by the other ideas it is related to within a web of discourse. The idea of a ‘slave’ for example is in significant part defined by its relation to the idea of a ‘master’ and if the meaning attached to the idea of a ‘master’ alters this has implications for the idea of a slave. From the relational perspective therefore, the integration of opposing ideas will imply certain changes and adaptations *within* ideas themselves as those ideas will now be understood within a new field of neighbouring and related concepts. We might therefore wonder whether there is something significant to say about the specific ways in which opposing sets of ideas will alter when they are brought into sustained relations with each other.

To take such discussions further it is also important to recognise that ‘ideas’ are not uniform in their characteristics but instead consist of a wide variety of sub-types. Ideational scholarship has become used to distinguishing, for example, between ‘cognitive ideas’ - causal ideas about how society works and the effects that policies will have - and ‘normative ideas’ concerned with the values and goals that actors should morally pursue. Mehta (2010), drawing to some extent on the work of Hall (1993), has developed a useful typology of:

- **Basic assumptions** - cognitive ideas about how society works, and the effects policy will have.
- **Goals/problem frames** - general normative ideas about what goals policymakers should pursue and what problems it is important to solve.
- **Policy ideas** – specific ideas about *particular* actions to take to achieve goals/solve problems, given existing basic assumptions.

Based on such a typology it would be reasonable to assume that different types of ideas will relate to others in different ways based on their specialised functions. For example, the introduction or removal of basic assumptions within a given set of ideas might have more far-reaching consequences than the introduction or removal of a specific policy idea. This suggests that when considering the effects of integrating opposing sets of ideas it may be important to consider which *types* of ideas are being integrated. This is the starting point for the theory of ideational reassociation laid out in the next part of this paper.

Ideational Reassociation.

In this section I set out a basic theory of ideational reassociation building primarily on the policy paradigm framework developed by Hall, reframed in terms of the ideational typology proposed by Mehta (2010). It also makes use of the relational approach to ideas as propounded by Carstensen (2015), to conceptualise how the introduction of different *types* of ideas within a policy paradigm are likely to affect the paradigm’s overall character. Based on this, I construct a schema of the different ways actors employ reassociation to manage ideational conflict.

The starting point for this theory is the idea of a policy paradigm which, following Hall, I define as a set of governing ideas which policymakers use to structure their activities. The concept of a

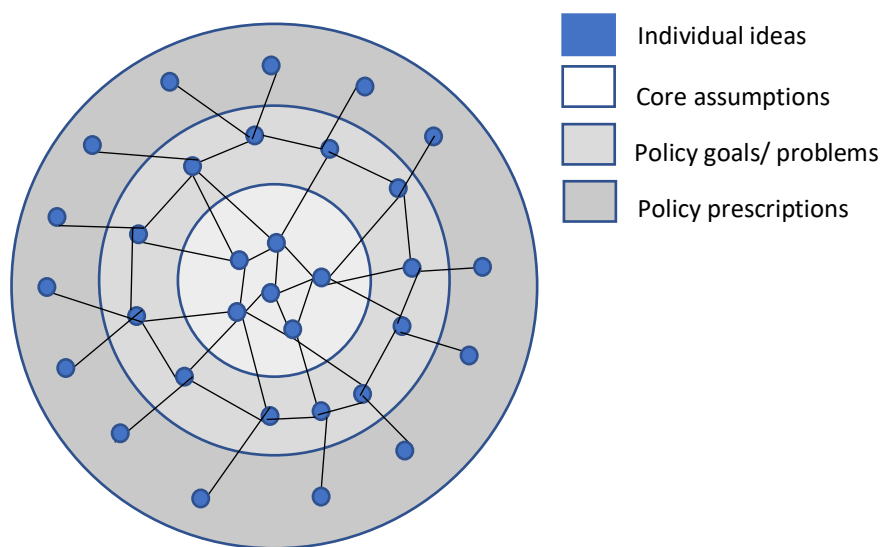
policy paradigm has been somewhat cast under shadow by the many critiques of Hall, and some scholars have sought to dispense with it altogether, studying ideas and sets of ideas without the conceptual baggage the term policy paradigm implies (Hogan and Howlet 2015). From my perspective however, the term policy paradigm usefully captures how - in order to influence policy – particular ideas have to be discursively connected to a wider set of ideas in some regular and institutionalised manner.

My usage of the policy paradigm concept, however, also departs in a significant way from Hall's usage in 1993. In the first place, while Hall understood a paradigm to be made up of basic assumptions, policy instruments, and specific 'instrument settings', I would argue this conceals the distinctive role that *value judgements* play in policymaking. I therefore instead rely on the ideational schema developed by Mehta (2010). In my understanding therefore, a paradigm is formed of three types of ideas. The first of these is '**core assumptions**' by which I mean fundamental cognitive ideas about how societies and economies work, and the effect different actions are likely to have. Such ideas are figuratively at the centre of a paradigm as they form the basic ontology around which the paradigm is structured. The second type of ideas are **policy goals/problem frames**, by which I mean normative ideas that describe what policymakers are trying to do and what problems they are trying to solve. These ideas form a kind of 'second layer' of the paradigm, connecting with the basic assumptions to guide and motivate policymaking. The third type of ideas - that I term **policy prescriptions** - concern the *specific actions* that policymakers choose to take to achieve their goals or solve their problems.

The term policy prescriptions includes both Hall's notion of instruments and instrument setting and form the outermost and least fundamental layer of a paradigm, but also guide the concrete action of policymakers. To give an example of one such policy paradigm, we could imagine, say, a moderate liberal policy paradigm. Such a paradigm might include the core assumptions that markets are generally efficient in allocating resources, but prone to failure in specific circumstances (such as imperfect information or imperfect competition). Based on these assumptions, the paradigm might include the general goal of promoting economic efficiency and the 'problem frame' of solving market failure when it occurs. This might give rise to specific 'policy prescriptions' such as deregulation and privatisation, but also state regulation of those sectors characterised by monopoly of imperfect information.

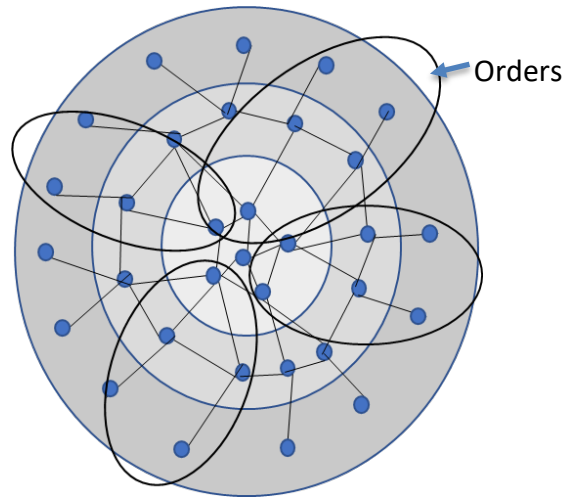
To illustrate my conception of policy paradigms more clearly, we could imagine a given paradigm illustrated as shown in *Figure 1*, with core assumptions in the middle, goals/problem frames in the second layer and policy prescriptions on the outside. Individual ideas are connected through the discourse of policymakers, expressed in policy statements that for example link particular policy prescriptions with particular goals/problems and particular assumptions. Some ideas will be directly connected while others will only be peripherally connected, having a secondary linkage through some common intermediate idea.

Figure 1: Elements of a policy paradigm



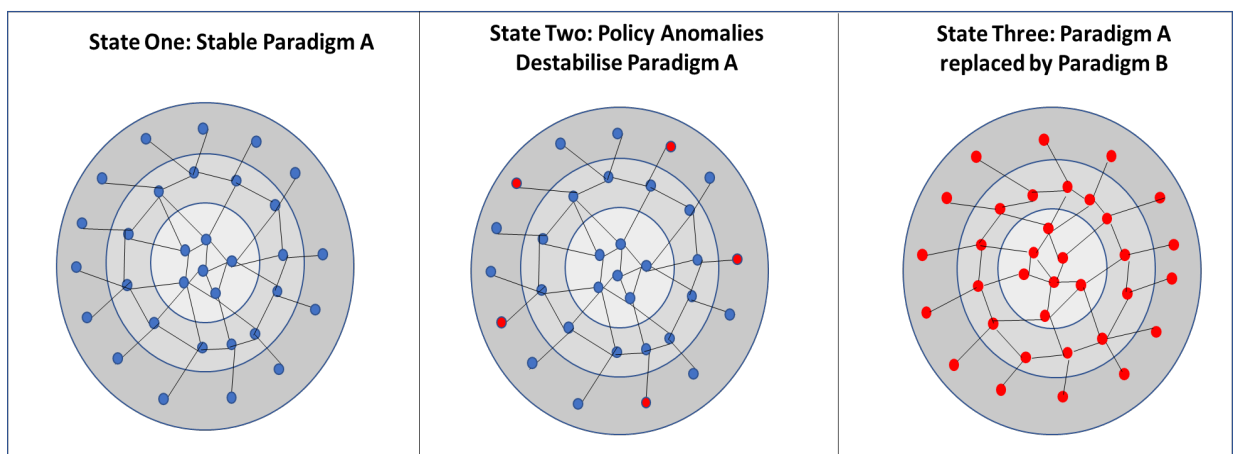
Policy paradigms are usually understood as general, overarching frameworks, applying to the breadth of government activity. Yet there will often be specialised applications of a paradigm to specific issues and policy domains. To illustrate this, I also employ a concept of a sub-paradigm ‘*order*’ - an internal collection of ideas within the paradigm which deal with a *particular issue* and centred within a particular policymaking agency or set of agencies. The place of orders within paradigms is illustrated in *Figure 2*.

Figure 2: Paradigm policy orders



The conceptualisation of policy paradigms employed in this paper also differs from Hall's in several other critical respects. As discussed in the literature review, Hall understood a given policy paradigm changing as part of a 'paradigm shift'; a process which began with unsolvable policy anomalies emerging and then with the wholesale replacement of one paradigm with another. This process of change is depicted in *Figure 3*.

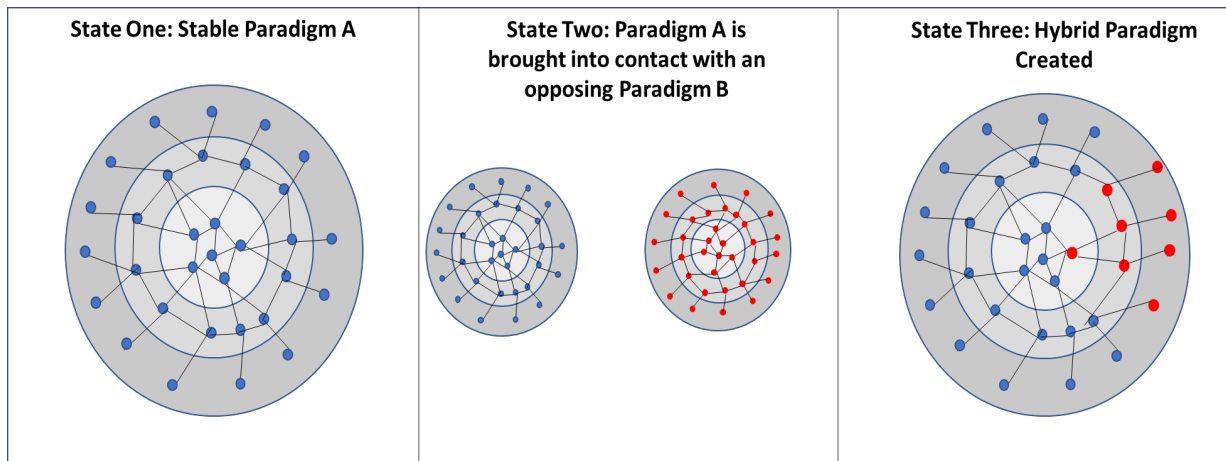
Figure 3: Halls model of policy paradigm change



Following on from the critiques of Hall, I would dispute that this is the only form of significant ideational change. Specifically, I would argue that change can be more partial or incremental,

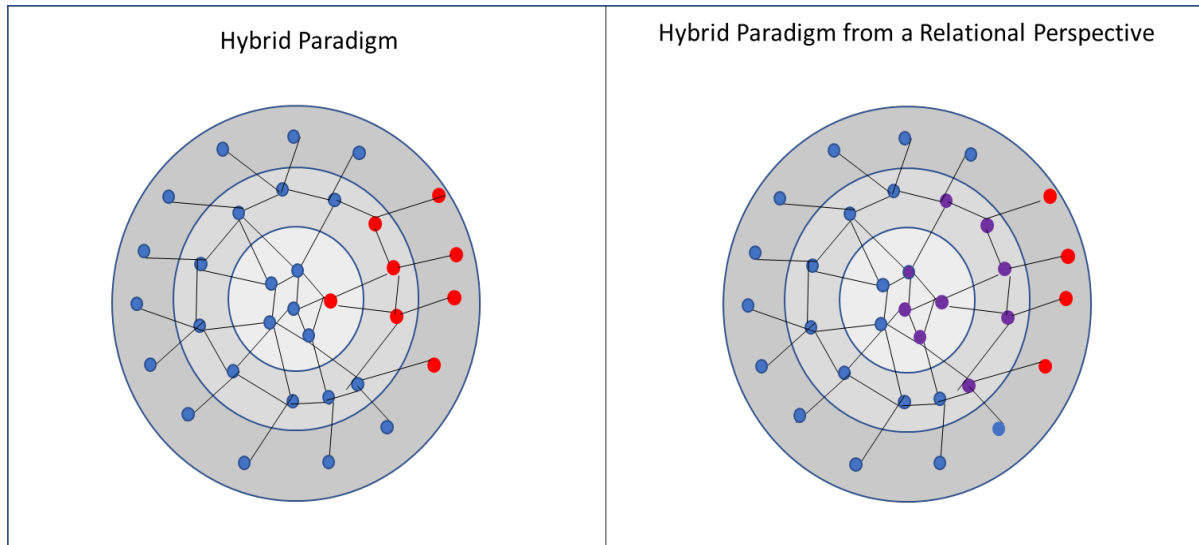
with specific ideas or groups of ideas from an opposing paradigm being integrated within the established paradigm. The result of this is not a replacement of the old paradigm but rather the development of a new *hybrid*, containing elements of the old paradigm and elements of the new. This process is illustrated in *Figure 4*.

Figure 4: Creation of a hybrid paradigm



This process of external ideas being integrated within a paradigm also has further implications when the relational nature of ideas is considered. The core insight of the relational view of ideas is that the meaning of any belief is in part constituted by the variety of other beliefs it is connected to (Carstensen 2015). Carstensen has argued that a paradigm can be understood as a set of relations between different ideational elements. The consequences of this are that ‘if an ideational element is removed or added to an already existing constellation of ideational elements, it can have significant effect both on the meaning of the idea in question and on the meaning of components of the already existing network of ideas’ (2015a, 290). This suggests that the introduction of a new idea within a given policy paradigm will also affect a wider range of ideas in close discursive proximity. To portray this visually we could imagine the same hybrid paradigm shown in *Figure 4*. Initially the ideas shown in this paradigm are coloured according to whether they originated from paradigm A (blue) or B (red), denoting that they will have characteristics associated with those earlier paradigms (see *Fig 5*). When considering the relational view of ideas however we can think of them as altering their colour (to purple) to represent the hybridisation of the idea or ideational element itself - which thus changes the character of the structured relationship between ideas.

Figure 5: Hybrid paradigms from a relational perspective

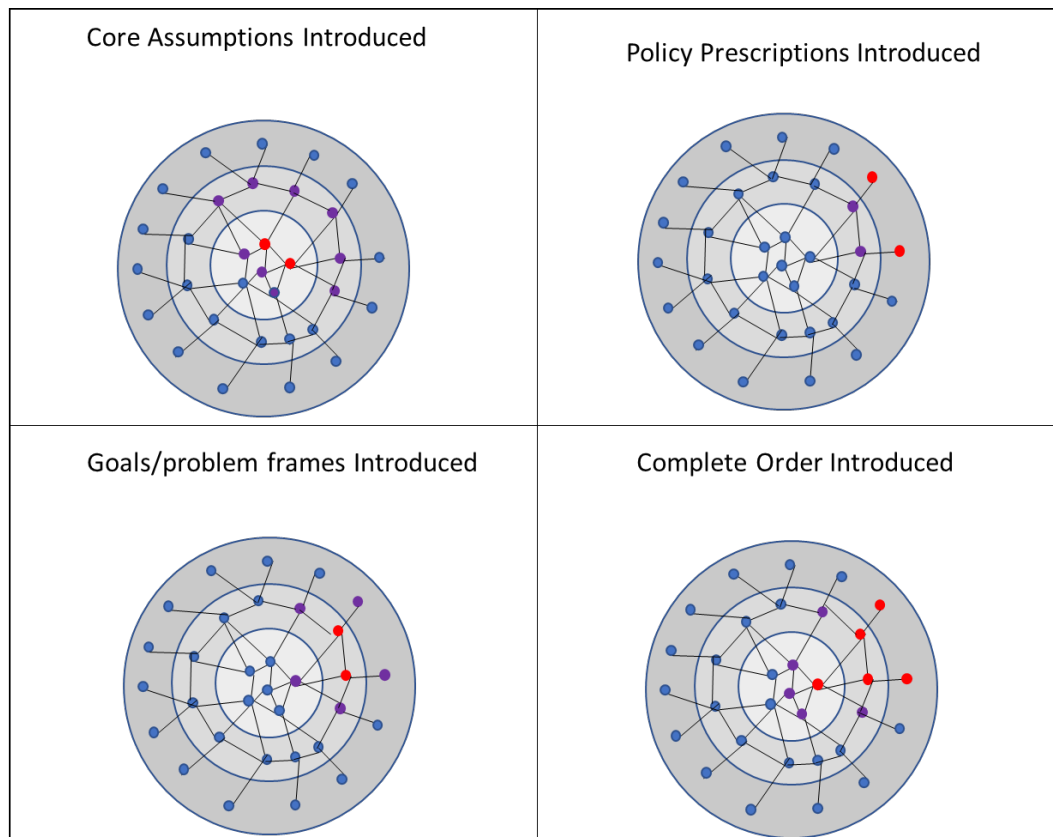


The key point here is that the hybrids created through the interaction of paradigms will not simply be composites of established ideas as they were manifest in the earlier paradigms. Rather, the process of cross-paradigm interaction will cause the ideas in question to shift and change and new ideas to emerge (represented by the purple dots in *Fig 5*) which could not be said to exist within either of the previously established paradigms. Therefore, unpredictability will be an essential element of inter-paradigm interaction and should be expected by researchers studying this phenomenon.

There is one final way in which my account of policy paradigms departs significantly from Hall. Hall assumed that specific ideas about policy were the most insecure elements of a paradigm and most easily dislodged by changing circumstances. Yet, I suggest that this is not necessarily the case and that, to the contrary, specific policy prescriptions are often the most ‘sticky’ and immovable part of paradigms, since many policies when carried into practice generate strong societal and bureaucratic interests in favour of that policy continuing. The insertion or removal of an idea within a paradigm should therefore be regarded as potentially occurring at any level, whether policy prescription, goal/ problem frame or core assumption. When combined with the relational view of ideas this suggests several distinct patterns by which ideational reassociation could occur. A process of ideational change might begin, for example, at the periphery with the introduction of a new policy prescription. Or it may start at the centre with either a new goal or problem frame being introduced and then emanate outward shaping the surrounding ideas informed by those goals/ problem frames or assumptions. Against these possibilities, it is also

feasible that a relatively complete order or nexus of ideas, comprising assumptions, goals/problem frames and policy prescriptions might be introduced to a paradigm at once. These distinct varieties of ideational reassociation are portrayed in *Figure 6*.

Figure 6: Varieties of ideational reassociation

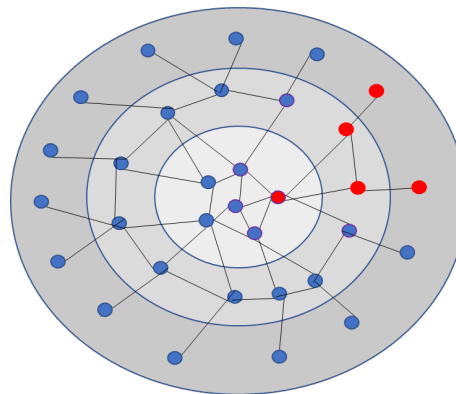


Will these different patterns of ideational reassociation matter for policy outcomes? Given the special roles and characteristics of different subtypes of ideas, I suggest that they will and that both the causes and effects of ideational reassociation will differ based on the type of ideas involved. Below I elaborate on this by exploring each type of ideational reassociation in turn.

One potential form of ideational reassociation might involve a relatively complete order, comprising assumptions, goals/problem frames and policy prescriptions, being integrated wholesale into an existing paradigm. Such a process might occur for instance when a major governmental reorganisation leads to a merger of several departments within a new administrative unit, or when ideologically divergent political parties are required to form a coalition government. Such circumstances will likely see the established organisational

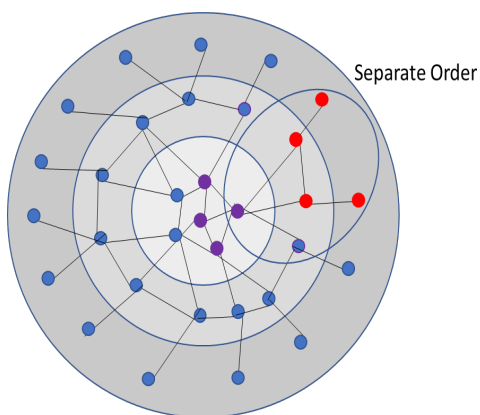
structures (such as the former departments or political parties) bringing with them a fairly elaborate and coherent set of policy ideas, an ‘order’, which will have to be integrated into a larger paradigm. *Figure 7* illustrates this. The red dots indicate the ‘foreign order’ ideas brought into association with the paradigm, ideas which are not isolated but rather in a stable pattern of connection to each other.

Figure 7: Complete order introduced



The fact that these ideas enter the paradigm ‘together’ in a mutually reinforcing pattern makes it considerably more likely that they will retain their original meaning and not be fully assimilated by the wider ideas of the paradigm. It may therefore, be more difficult for actors to achieve a strong synthesis and to adequately ‘digest’ the new ideas within the wider paradigm. In such circumstances what is most likely to occur, I would argue, is a kind of ‘fencing off’ which segregates the new ideas into a distinct order *within* the paradigm as shown in *Figure 8*.

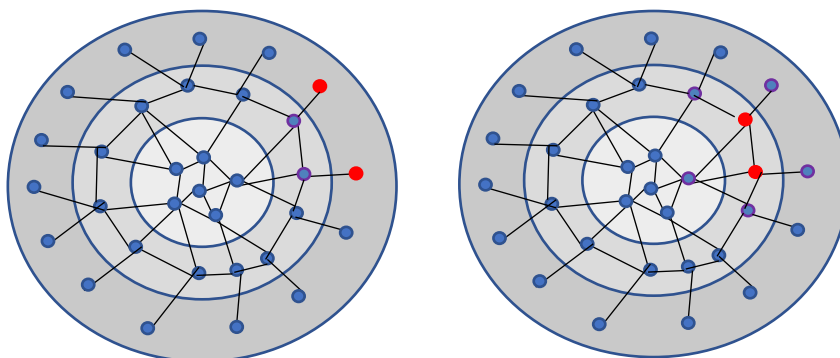
Figure 8: Fencing off



Actors will modify their assumptions arguing that the new ideas only apply within a limited set of circumstances, thereby relegating these ideas to a specific policy domain. The result will be a kind of ‘semi-detached’ order within the paradigm, often only loosely connected to the rest of the paradigm by a set of assumptions that mediate the relationship (these mediating ideas are represented in *Figure 8* as purple, in between the blue of the wider paradigm and the red of the separate order. As an example, we might imagine a paradigm that was highly ‘colour-blind’ on issues of racial justice⁴⁴ and unwilling to embrace widespread affirmative action; yet, after the partial incorporation of race-conscious ideas, recognises a partial exception to this and begins to pursue quotas in the civil service, on the assumption that - in this specific domain - having equal representation is especially important. Such instances of ‘fencing off’ represent perhaps the most common or intuitive kind of ideational reassociation. It is also the most limited and the most likely to be reversed when, for example, a further set of political or organisational changes reverse the circumstances that brought the ideas together.

Alongside the possibility of a complete order being integrated into a paradigm, another possibility is that individual ideas will be brought into a paradigm without an accompanying set of concepts. We might imagine, for example, certain policy prescriptions being brought into a paradigm when a given government inherits a policy pursued previously which it is impossible to easily dismantle. We might also imagine a particular policy goal or problem frame being introduced within a paradigm when a change in public consciousness forces the recognition of new political values. This is depicted in *Figure 9* with the left side representing a case of ‘policy prescriptions’ being introduced and the right a case of goals/problem frames being introduced.

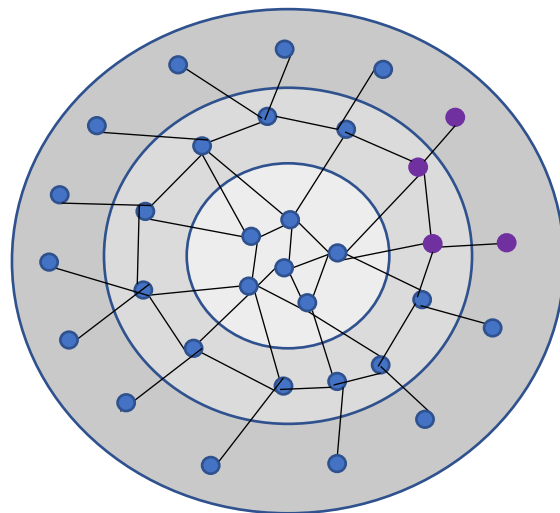
Figure 9: Policy prescriptions or goals/problem frames introduced



⁴⁴ The term ‘colour-blind’ refers to an approach to racial issues that bans all forms of discrimination premised on race but includes within this edict restrictions, positive discrimination or affirmative action. Colour-blind approaches can be contrasted with ‘race-conscious’ policies that seek to use tools like positive discrimination to remedy past injustice or increase diversity (Lieberman, 2002).

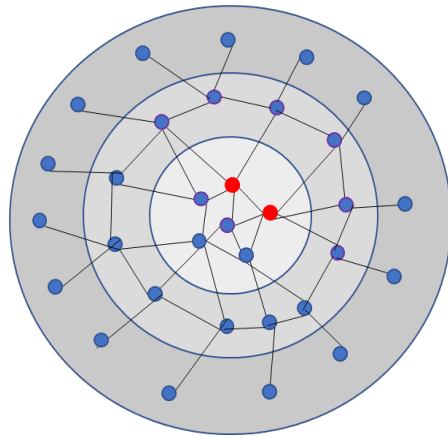
Unlike in the prior case of wholesale orders being introduced into a paradigm, such ideas are likely to be relatively isolated; having less closely related ideas to fix their meaning in place. In such circumstances their meaning is much more likely to shift as actors recast them to fit within a given paradigm. Policy prescriptions, for instance, are likely to undergo a process of ‘reworking’ where they are adjusted to fit within the goals and assumptions of the new paradigm. For example, we might imagine Keynesian prescriptions of fiscal stimulus being reworked within a neoliberal paradigm to emphasise tax-cuts as opposed to government spending. Goals/problem frames meanwhile will undergo a process of ‘rejustification’ with it being argued that they are best addressed by the policy prescriptions already within the established paradigm. For example, traditional leftist goals of poverty-reduction when integrated within a conservative or neoliberal paradigm might be redeployed to justify benefit cuts to address a perceived issue of ‘welfare dependency’. Both reworking and rejustification are likely to end in a similar state, depicted in *Figure 10* where the ‘foreign’ red ideas and the most immediately connected ‘host’ blue ideas change to an intermediate purple.

Figure 10: Reworking and Rejustification



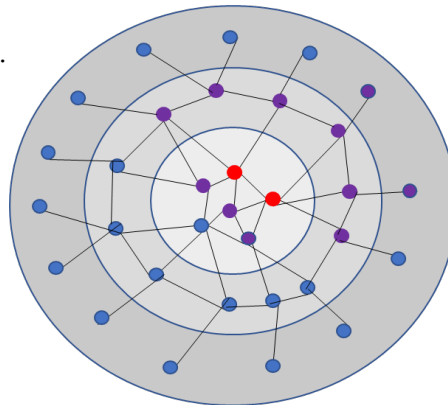
The case of core assumptions being integrated into a policy paradigm (as shown in *Figure 11*) is somewhat different.

Figure 11: Core assumptions introduced



As with other types of ideas, if a ‘foreign’ core assumption is not connected to the wider set of policy goals or policy prescriptions it originally related to, its entry to a new paradigm is unlikely to change that paradigm’s entire direction. Moreover, the isolated assumption is likely to some extent to recast itself to fit with its new environment. Yet, compared to policy prescriptions or goals/problem frames, core assumptions are likely to have a high degree of network centrality, inevitably linking to many other ideas within a paradigm. Moreover, because core assumptions tend to have powerful far-reaching implications, they are likely to have significant effects - even on ideas not immediately connected to them within the paradigm. This means that the introduction of new core assumptions within a policy paradigm may have particularly significant and far-reaching implications, causing many surrounding ideas to ‘recast themselves’ as shown in *Figure 12*.

Figure 12: The wide impact of new assumptions.



If these assumptions are in some way challenging to the larger paradigm - suggesting that its existing policy prescriptions will be ineffective, its goals unachievable, or its problems unsolvable, they may have serious destabilising effects on the paradigm as a whole. What I suggest is likely to occur in such circumstances then is a kind of ‘adaptive-problem solving’ -

where existing goals and problem frames are ‘recast’ as a means to solve the problem that these new assumptions pose. To give an example of this kind of process, we could imagine a socialist paradigm committed to high taxation as part of its goal of redistributing wealth. Now, we might imagine the basic assumption becoming integrated into this paradigm that heavy taxation will over time lead to mass emigration and the emergence of an underground economy. In some circumstances the acceptance of this assumption would lead to a dilution of support for higher taxes, with the existing goal of wealth redistribution now perhaps being balanced against the new goal of ensuring a competitive economy. On the other hand, it could be the case that support for heavy taxation, perhaps due to the influence of established bureaucracies, is so strongly entrenched within the established paradigm that modifying this commitment is inconceivable. In these circumstances, the assumption that such taxation may lead to greater emigration or underground activities will constitute a problem likely to be solved by other policy devices. As such, we could imagine this paradigm increasingly emphasising the need for stronger law enforcement and heavier penalties for tax avoidance as a kind of solution to the problem. In the form of ‘adaptive problem solving’ then, ideational reassociation between two paradigms can lead to the emergence of new ideas which *were not directly present in either of the original paradigms themselves*. This makes adaptive problem solving - in some ways - the most complex, unpredictable, and generative form of reassociation since it can only be the product of fundamental assumptions being strongly embedded within a paradigm.

Collectively, these different forms of reassociation (presented *Figure 13*), provide a language through which to interpret the different ways actors use reassociation to manage conflict between opposing ideas. They may attempt to ‘*fence off*’ the competing ideas by introducing a limiting assumption about the circumstances they apply to. They may adopt opposing policy prescriptions or goals/problem frames and adapt them through *reworking/rejustification* to work within the larger paradigm. Finally, they may accept certain core assumptions from an opposing paradigm and engage in a process of *adaptive problem-solving* to address the issues such assumptions raise.

Figure 13: Forms of Ideational Reassociation

Form of idea(s) introduced	Form of reassociation
Complete interconnected orders	Fencing off
Isolated policy prescriptions	Reworking
Isolated goals/problem frames	Rejustification
Isolated core assumptions	Adaptive problem solving

In the following, final section of this paper I provide an application of the framework by discussing the different forms of reassociation we might observe between a neoliberal and developmentalist ideational paradigm.

Varieties of neoliberal/developmentalist reassociation

Having outlined a set of concepts with which to approach ideational reassociation, I now illustrate their potential usefulness by examining the interactions between paradigms characterised as ‘neoliberal’ and committed to economic liberalism and paradigms characterised as ‘developmentalist’ and centred on ideas of industrial policy. By ‘economic liberalism’ I broadly refer to a paradigm centred around the efficiency of free markets and the desirability of minimal government intervention (Cahill et al. 2018; Carstensen and Matthijs 2018). By developmentalism I refer to a paradigm centred around the belief that government should use industrial policies to upgrade the economic structure to promote economic development (Chang 1999; Johnson 1999). Developmentalism and economic liberalism are useful to compare, as they are traditionally considered highly opposed (Chang 1999; Block and Somers 2014; Williams 2014a) yet have also often been brought into close contact with each other in ways likely to produce ideational reassociation (Weiss 2014; Heo 2015).

Based on the theoretical framework outlined above, what might be said about the different ways actors could potentially manage conflict between neoliberal and developmentalist ideas? Initially, perhaps the most obvious possibility is a process of ‘fencing off’ where a liberal

paradigm designates a limited conceptual space in which active industrial policies may be permitted, perhaps because of the existence of market failures or of ancillary political values such as ‘balanced’ or ‘inclusive’ growth. Another possibility is that of ‘reworking’. In this case active industrial policies, introduced into a liberal paradigm, might be ‘readapted’ so as to fit with neoliberal goals and assumptions. I would argue that this reworking is a form of ‘*neoliberal developmentalism*’ in which the mechanisms of developmentalist policies are subordinated to achieve neoliberal goals. An inversion of this possible outcome, based on the idea of ‘rejustification’, I call ‘*developmental neoliberalism*’. Here an acceptance of developmentalist goals within a neoliberal paradigm, leads to neoliberal policies such as deregulation being reframed as a means to achieve classic developmentalist goals of structural change and national competitiveness. In addition, one final, and intriguing possibility in respect of this thesis, is that the introduction of developmentalist assumptions - in particular the assumption that the pursuit of industrial policy can potentially succeed - within a paradigm firmly committed to neoliberal goals, might lead to increased concern from policymakers that the industrial policies of foreign states could prove a dangerous threat. Thus, a process of ‘adaptive-problem-solving’ could ultimately lead to the emergence of a form of ‘*neoliberal anti-developmentalism*’ that seeks to combat foreign industrial policies through aggressive trade policy as a means of pursuing neoliberal goals.

To what extent do these hypothesised forms of liberal-developmental reassociation have a basis in reality? Obviously, they represent ideal types and cases of interaction between neoliberalism and developmentalism in practice are frequently far messier. Yet there are cases we can identify which conform to each of these different types. By way of illustration, I give a brief account of some such cases below.

British industrial policy in the 1990s: ‘Fencing off’ and a neoliberal-developmental hybrid

As an example of how ‘fencing off’ can produce a neoliberal-developmental hybridity, I examine Conservative economic policy in Britain in the immediate post Thatcher period. Thatcherism, it is widely recognised, constituted an extremely potent form of economic liberalism and its popularity ensured that much of this edifice would remain in place in the succeeding Major government. Yet at the same time, some ministers within Major’s government - particularly Michael Heseltine, who would become Deputy Prime Minister (1995-97), were

enamoured with developmentalist ideas of industrial policy. An admirer of Japanese developmental capitalism who had organised trips for British MPs to tour Japan's Ministry of International Trade and Industry (MITI), Heseltine famously promised he would "intervene before breakfast, before lunch, before tea and before dinner" to protect British industry (Crick 1997, 381). Heseltine used his considerable sway within government to open up what Carstensen and Matthijs have termed 'ideational space within the existing paradigm for more active government intervention' (2018), winning an endorsement from Major for an active industrial strategy targeting specific industries. This new policy direction, however, was never reconciled with the recalcitrant economic liberalism of the Thatcherite faithful - represented by figures such as Norman Lamont.

To manage this potentially explosive ideational conflict, Major's solution was to effectively silo Heseltine and his developmentalist ideas within the Department of Trade and Industry (DTI). Within this department Heseltine was given free rein to try to develop a British industrial policy and external agencies related to this goal, such as the long dormant National Economic Development Council, were consolidated under Heseltine's purview (Dell, 1997, 273). While DTI was protected from interference by other departments such as the Treasury under Lamont, it was also understood that it would receive little support *from* them and that they would continue to pursue an orthodox Thatcherite economic policy. The relatively limited purview of Heseltine's new industrial strategy was justified on the basis that it existed to address 'market failures' which existed in some sectors but were not generally present across the economy.

The case of British industrial strategy in the 1990s provides an example of where Heseltine and others successfully employed persuasive power to import a set of much more statist assumptions into a prevailing economic liberal paradigm. Being relatively coherent as a discrete object, this nexus of new ideas was largely contained or 'fenced off' within a relatively low-profile agency and made to fit within a narrowly defined justificatory framework of specific market failures. This allowed the Major government to forestall a potentially serious conflict between different elements of its governing policy paradigm (although it would obviously be less successful preventing a destructive conflict between pro-European and Eurosceptic wings of the Tory party). This then represents a good example of how 'fencing off' can work in practice. It is worth noting that having been thus contained, Heseltine's industrial strategy was effectively strangled by the Treasury - which reduced the budget of the DTI precipitously. Future prime

minister Gordon Brown would remark cuttingly at the time that Heseltine held ‘absolute power over a department that has become absolutely powerless’ (Crick 1997, 391). The episode is an instructive example of the potential pitfalls of ‘fencing off’ as a mode of ‘ideational reassociation’. When ideas introduced into a paradigm remain relatively self-contained, it may also be easier to reverse their introduction.

British industrial policy in the 2010s: ‘Reworking’ and neoliberal developmentalism

The kind of reassociation outlined above can be usefully contrasted with another case from British Conservative economic policy several decades later; the attempt again to pursue a more muscular industrial policy under the Cameron, May and Johnson governments. In this case, the partial weakening of economic liberalism in British politics - thanks to the 2008 financial crash and later the political effects of Brexit, gave credence to a perception that the British economy was dangerously ‘unbalanced’ towards finance and the south of England. This imbalance allowed various actors to once again propose the adoption of an industrial strategy to rebalance the economy and address these structural weaknesses. Rhetoric calling for this rebalance was seen in Chancellor George Osborne’s ‘Northern Powerhouse’ strategy, May’s emphasis on a new ‘stakeholder capitalism’ and the ‘levelling up’ agenda of the current Johnson government. Unlike in the case of the Major government, renewed interest in industrial policy – or ‘industrial strategy’ as it has proved politically safer to call it – seen as important to the perceived electability of the Conservative Party, has proved impossible to fence-off in one agency or government department. The Treasury for example, rather than trying to kill talk of industrial policy as it did in Lamont’s day, has actively tried to ‘own’ the issue, fighting with the Department of Business Industry and Skills for primacy in developing UK industrial strategy. The process of ‘*fencing off*’ which characterised the Major government therefore does not well describe the more recent British Conservative dalliances with industrial policy.

Nonetheless, these newly embedded ideas surrounding industrial policy have had to be reconciled with the still powerful tradition of non-interventionism within the Conservative Party’s economically liberal paradigm. As a result, according to Berry (2019), the industrial policies adopted strongly emphasise *consultation* with the private sector to the extent of rarely asserting an independent viewpoint. They have constituted ‘market conforming’ as opposed to ‘market confronting’ industrial policy; thereby departing from the more radical developmentalist

focus on ‘getting [market] prices wrong’ so as to alter the development trajectory of an economy (Amsden, 1991, Lin and Chang, 2009). In this way, as Berry notes, an activist industrial strategy, which theoretically might promise a departure from economic liberalism, has instead been ‘reseeded’ with neoliberal norms thus serving neoliberal values and objectives.

In this way, we can see recent British experience with industrial policy as an example of ‘*reworking*’ - where the policy instruments of industrial strategy have been adapted to fit with the values and priorities of economic liberalism. Such a process of reworking, I suggest, has produced a ‘neoliberal developmentalist’ paradigm, where one of the key instruments of developmentalism (industrial policy) has been utilised to serve distinctly neoliberal goals.

South Korean economic policy during the 1990s: Rejustification and developmental neoliberalism

An almost inverse experience to the previous example can be found in the economic policy of South Korea during the 1990s. One of the classic examples of a developmental state, South Korea found itself in this period under increasing pressure from the US and international institutions like the International Monetary Fund (IMF) to ‘liberalise’ its economy and to accommodate itself to neoliberal ideas⁴⁵. This diluted the traditionally developmentalist paradigm within South Korean economic policy to include the neoliberal goal of market reform. Yet, at the same time, many institutional elements of Korea’s developmental state - particularly close coordination between ‘Chaebol’ industrial associations and government ministries and the use of development targets - proved rather resistant to abolition. This led the government of Kim Dae-Jung to increasingly try to justify the continuance of these developmentalist policies to support liberalisation.

According to Choi (2012), what this led to was a kind of ‘developmental neoliberalism’; which involved the ‘combined operation of market mechanisms as a developmental engine with state intervention as the operator and manager of that engine’ (Choi 2012, 109). In domains including urban policy (Choi, 2012), and environmental policy (Heo 2015), traditional instruments of developmentalism were justified as necessary for liberalising the South Korean economy. Regular government inspection and the use of government advisors, for instance,

⁴⁵ Such pressure had increasingly powerful effects given the severe financial crisis South Korea experienced in the 1997s and its subsequent need for international support.

were used to ensure that firms were behaving as they would in a liberal market economy, by, for instance, maximising shareholder value (Williams 2014, 92–98; Heo 2015). The process in this case is somewhat similar to the case of the May (2016-19) government discussed above. The essential difference being that while in the former case a neoliberal paradigm was made to accommodate developmentalist goals, in this case a developmentalist paradigm was partially accommodating neoliberal goals.

American foreign economic policy since the 1980s: Adaptive problem-solving and neoliberal anti-developmentalism

To examine an instance of adaptive problem solving, I now turn to the United States during the 1980s. During this time, in the so-called ‘industrial policy debate’, many commentators argued that the US should adopt an active industrial policy similar to those of Japan or other developmental states (Graham 1992; Campbell and Pedersen 2015). Arguments were put forward about the potential effectiveness of such industrial policies and how they gave the nations that employed them an advantage in international trade. Such arguments, in the end proved ineffective at dislodging neoliberal policy instruments or goals, deeply ingrained in American politics. Yet some of the underlying assumptions about the effectiveness of foreign industrial policies did have a significant impact, exacerbating fears about trade relations with, among others, Japan. As a way of dealing with these underlying assumptions, policymakers increasingly adopted a stance in their trade policy of ‘anti-developmentalism’, seeking to counter and ideally remove the industrial policies of foreign developmental states because they were understood as a threat to the American, neoliberal model.⁴⁶

...

As a brief discussion of the above cases illustrates - ideational reassociation in the case of neoliberalism and developmentalism can lead to a diverse set of outcomes. In addition to an intuitive fencing-off scenario, such reassociation can produce the distinct ideologies of developmental neoliberalism and neoliberal developmentalism. Finally, and most unexpectedly, through the process of adaptive problem-solving, it can produce an ideology of anti-developmentalism – that seeks to solve the problem posed by the adoption of developmental assumptions by embracing a foreign economic policy highly hostile to the developmental state.

⁴⁶ This process is discussed in detail in paper 3.

The different forms of ideational reassociation discussed in this section - and the differing forms of liberal-developmental reassociation specifically - need not exist in strict isolation. Indeed, many cases of such reassociation will involve a combination of fencing-off, reworking, rejustification and adaptive problems-solving all at once. What this section has aimed to show, however, is that there is utility in identifying these processes as *separate ideal types*, and that different cases can be marked by different preponderances of one type over another. In this way, recognising these different forms of reassociation, allows for a more precise and nuanced discussion of how ideas interact across paradigms.

Conclusion

To review, this paper has considered how actors use ideational reassociation - the combining of diverse ideas in new formulations - to manage and resolve conflicts within policy paradigms. Drawing on a particular typology of ideas (Metha, 2010) and on the relational approach to ideas (Carstensen 2015), it has argued that different opportunities for ideational reassociation emerge depending on the *type* of ideas - prescriptions, goals/problem frames, or basic assumptions - that are brought into contact with each other and that such ideational reassociation can have varied effects. For example, when a particular paradigm is integrated with policy prescriptions, goals or problem frames from an opposing one, we may see a 'moderating effect' with the resulting hybrid being in some senses 'between the two' previous paradigms. Yet, when a paradigm plays host to new basic assumptions from an opposing paradigm the results can instead be radicalising with a process of adaptive problem-solving leading to entirely new policy solutions and more militant resistance to the opposing paradigm.

Thinking in terms of ideational reassociation, and the kind of cross-paradigm fusions it produces, may shed light on various important ideational formations affecting modern politics. Specifically, it provides a fruitful way of approaching 'neoliberalism' as a concept in general. Neoliberalism has always been a difficult concept to define, being in many ways a clear inheritor of classical liberal ideas whilst also being much more adaptive and flexible in its applications. I suggest that 'neoliberalism' could usefully be understood as the result of 'reassociation' between liberal and non-liberal ideas. Neoliberal paradigms, in this view, are produced when non-liberal ideas are integrated into a liberal paradigm and are then subject to processes of reworking, rejustification and adaptive problem-solving to make them accord with

a liberal perspective. Thinking about neoliberalism in this way could help scholars conceptualise how it differs as a concept from classical liberalism and why it is so endlessly adaptive and resilient in the face of ideational challengers.

In advancing a theory of ideational reassociation, the paper also contributes generally to a more nuanced and developed discussion of how ideas interact across paradigms. I believe especially that the identification of ‘adaptive problem-solving’ as a form of ideational reassociation has potential to expand our understanding and open new avenues for exploration of the role of ideas in politics. There is often a tendency to assume that when different paradigms come into contact the resulting reassociation will recognisably combine existing elements of both paradigms and will, in some ways, represent a middle ground between the two antecedent paradigms. The notion of adaptive problem-solving challenges such an assumption. I argue that, through adaptive problem solving, the combustible mixture of ideas from different paradigms often leads to strange mutations capable of generating original and deeply surprising outcomes. In this way, greater appreciation of such a process should further enliven researchers to the dynamic and deeply creative role that ideas play in political life.

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Paper Two

Making America Great (The First Time): The National Developmentalist Tradition and the Origins of the Hidden US Developmental State

Recent research in American political economy has revealed the existence of a substantial American 'developmental state' but has argued that this state is 'hidden' in ways that constrain its effectiveness. There has, as yet, been only limited discussion regarding the origins of this developmental state and the reasons for its concealment. This paper addresses this gap by attending to the long-run historical origins of the US developmental state. It argues that this modern state should be seen as a composite of several different developmentalist orders, each constructed during successive waves of American state-building. These orders have differed substantially in their basic orientation, making it hard to coordinate them under one locus of authority. This, I argue, has contributed to the dispersal and 'hiddenness' of the modern US developmental state.

Introduction

Much recent research on the political economy of the United States has emphasised the role of active industrial policy in the country's economic success (Block 2008; Mazzucato 2013; Weiss 2014; Wade 2017; Quinn 2019). It has even become common to talk of an 'American developmental state' which in its ambitions and scope in many ways equals or surpasses the developmental states of East Asia (Block 2008; Wade 2017; Quinn 2019). This American developmental state, however, is also said to differ from its East Asian cousin by being largely invisible; its activities obscured behind the reputation of the US as the home of free market economics. Block (2008) describes the US as having a 'hidden developmental state' and Wade views the country's economic governance as defined by a paradox; 'the ideology of free markets and the hidden practice of directional thrust' (Wade 2017, 174). Quinn similarly describes the American developmental state as 'peculiar' in its lack of the visible structures and policies characteristic of developmental states elsewhere (Quinn 2019, 13).

This hidden character of the American developmental state is widely regarded in the literature as detrimental both to the United States and to the world. Block (2008) sees it as depriving US industrial policy of democratic legitimacy and of the kind of oversight and coordination which

would allow it to be more effective, while Mazzucato (2013) argues that ignorance of the state's role in producing economic value prevents a more equitable share of national wealth being invested in public services. It is also often suggested that greater public and international recognition of the American developmental state would make it harder for the US to justify the attacks it has frequently made on the industrial policies of other developmental states (Chang 2003; Block 2008; Wade 2017). There have, therefore, been frequent calls for the hidden US developmental state to be 'brought out into the open' and made more visible, as a means of enhancing its effectiveness (Mazzucato 2013; Block and Keller 2016; Wade 2017).

Such concerns imply that it is important to understand why the US developmental state is 'hidden' and what would be necessary to reveal it. Block and others argue that the developmental state has 'been rendered invisible by the success of market fundamentalist ideology' (2008, 183). Essentially, it is argued, opposition to government intervention in the US is so strong that policymakers feel compelled to disguise the US developmental state or not acknowledge its significance. Another argument, advanced by Mazzucato (2013), Weiss (2014) and Quinn (2019) is that the US developmental state relies excessively on public-private partnerships and on the manipulation of financial markets to achieve its goals and that this obscures the role of the state in industrial development. This argument bears strong similarity to wider research on the 'submerged state' in American political development.⁴⁷

Such arguments are undoubtedly important in explaining the hidden developmental state. Yet, in this paper, I argue they are not the whole story and to better understand why the US developmental state is hidden we need to attend more to this state's historical origins. The history of US developmental state building has been discussed in other scholarly work (Bingham 1998; Lind 2012; Cohen and DeLong 2016; Wade 2017). However, this has often been a somewhat perfunctory task, with a brief rehash of Alexander Hamilton, Henry Clay, and 'the tariff' quickly giving way to a discussion of modern US developmentalism. Relatively little attention, by contrast, has been paid to the shifting institutional locus of US developmental state

⁴⁷ The literature on the submerged state within APD examines how many aspects of US government activity have been obscured from view, either intentionally or non-intentionally, and are not easily visible to the public. (Howard 1997; Balogh 2009; Mettler 2010; Hackett 2017). Mechanisms that produce state submergence vary, but one critical factor has been the use of private intermediaries to deliver government services (Mettler 2011; Hackett 2017). Mettler, for instance, shows how federal intervention to support home-ownership has often come in the form of tax-credits incentivising banks to provide mortgages. This, she argues, often causes observers to miss the hand of the state in supporting home-buyers (2011).

building throughout American history and the legacy that successive waves of change have left. Nor has the concept of path dependency - which plays so central a role in recent institutionalist literature (Pierson 2000; Campbell 2004; Mahoney and Thelen 2010) - been enlisted to consider how the history of the US developmental state may help explain its current realities.

In this paper, I argue that the modern American developmental state is best seen as a composite of three distinct developmentalist policy orders.⁴⁸ The first of these orders emerged in the Early American Republic and was built around extensive 'states led' economic planning. The second developed following the rise of the new administrative state in the nineteenth century and centred on the use of standard setting and coordination between leading national firms. The third grew out of the rise of the 'national security state' after World War II and relied heavily on public-procurement to assure US technological leadership. All of these orders, I argue, have left a legacy on the modern US developmental state as it emerged after the 1970s.

By comparing the activities of these different developmentalist orders, I show that each one differed substantially in terms of the goals it pursued, its preferred policy instruments and its approach to regulating American capitalism. Specifically, the *states-led order* prioritised the autonomy of individual states and their right to enhance the competitiveness of their local economies within the United States. What I term the *associative-led order* (to reflect Hawley's (1974) term the 'associative state') prioritised the economic competitiveness of the United States as a whole, facilitated by cooperation amongst businesses and between business and government. The *national security order*, meanwhile, has been concerned less with economic competitiveness than with the maintenance of US military supremacy, a goal in tension with the broader objective of economic competitiveness as it implies certain technologies should be withheld from the civilian economy.

I also highlight the competing ideas within these orders as regards the issue of industrial concentration, and whether the ascent of large corporations over small business was something to be supported or resisted. For example, given that large, multi-state corporations threaten the capacity of state-governments to control their local economies, the states-led order was threatened by industrial concentration and thus strongly influenced by a Brandisean tradition of

⁴⁸ By 'policy orders', I refer to networks of ideas/institutions, connected to a particular locus of authority within the American state (Lieberman 2002). For more discussion of orders, see the introduction to this thesis.

support for small producers.⁴⁹ As I discuss below, the associative and national security orders, by contrast, have relied on close coordination with a relatively small number of powerful corporate actors. There are, consequently, major differences between the different orders concerning, for example, antitrust law and the ideal industrial structure for the American economy. These differences, I argue, have over time played a major role in keeping the US developmental state submerged. Based on the different goals, values and perspectives in the different developmental orders, actors have had good reason to resist encroachment by the other orders. This makes it extremely difficult to coordinate the developmental state within a central locus of authority. Given that such centralisation could play a major role in making the US developmental state more visible, I argue this is an important dynamic in keeping that state hidden and thus worthy of further scholarly investigation.

In reviewing the activities of these three developmentalist orders, the paper provides support to arguments made previously regarding the origins of the hidden developmental state (Weiss 2014). It discusses the extent to which each of these historical orders has been characterised by the intermingling of liberal and developmentalist ideas and how this has been central to justifying the public-private partnerships that characterise the US developmental state. I also emphasise how, employing a historical perspective, we can see that private-sector involvement in US industrial policy has extended not merely to the final delivery of projects or the management of firms but also to the initial allocation of credit to favoured sectors.

In making these arguments the paper makes the following contributions. Firstly, it provides a fuller explanation as to how the ‘hidden’ US development state emerged and why it persists in being hidden. That this state is hidden not purely by the power of ‘market fundamentalism’ as is frequently suggested (Block 2008; Mazzucato 2013; Block and Somers 2014) but also by long established institutions which emphasise private delivery mechanisms for policy, helps explain why ‘bringing the developmental state into the open’ may be a more difficult task than some existing literature suggests. Secondly, the paper contributes to the growing literature on ‘state-submergence’ in American political development by explicitly locating the ‘hidden developmental state’ within this research paradigm (Howard 1997, 2007; Mettler 2011; Hackett

⁴⁹ The great Progressive Era Jurist Louis Brandeis was a leading critic of big business and is often invoked to symbolise the anti-monopoly small-scale producerism that has been a major force in American politics (Atkinson and Lind 2018).

2017). In identifying the hidden US developmental state as another example of such state submergence, the paper extends our appreciation of the extent to which elements of US state activity have been concealed. Moreover, by focussing on how clashes between the distinct developmentalist orders may have been a factor in concealing the US developmental state, the paper highlights the possibility of inter-order competition serving as a driver of state submergence.

To summarise then, the paper examines each of the three main ‘developmentalist orders’ which I argue have contributed to making up the modern US developmental state. Following this discussion, I examine how the interaction between these orders, together with the combination of liberal and developmentalist ideas within them has functioned to hide the American developmental state. I then conclude with some reflections on the implications of this argument, as well as wider remarks on the consequences of the US hidden developmental state.

The Early Republic, the ‘American system’ and the states-led developmental order

The influence of what would now be termed developmentalist ideas was very much present in the United States during the Early Republic and the first efforts at developmental state-building occurred not long after the country’s birth. Although by the late eighteenth century Adam Smith had published *The Wealth of Nations* (1776), and received an enthusiastic reception among many Americans, his doctrines of free trade and laissez-faire economics were far from universally accepted in the young nation (Hartz 1948; Goodrich 1949; Lind 2012). Instead, older mercantilist ideas, inspired in large part by the example of the British colonial mercantile system, continued to proliferate, spawning the basis for an American developmentalist tradition.⁵⁰

The patron saint of this tradition would quickly emerge in the form of Alexander Hamilton, the first US Secretary of the Treasury.⁵¹ In his influential ‘*Report on Manufacturers*’ (1791)

⁵⁰ This was further combined with the conditions of a country which remained from the stand-point of the settlers ‘underdeveloped’, with much land uncultivated, centres of commerce unconnected by infrastructure, dependency on Europe for much of its manufacturing needs, and a financial system still in its infancy (Lind 2012; Cohen and DeLong 2016). In this context, it is not surprising that demands for active state promotion of new industries in the form of policies that are recognisable today as ‘developmentalist’ began to be generated.

⁵¹ In recent years, Hamilton has become an even more potent symbol of developmentalism, with contemporary American advocates of industrial policy frequently describing themselves as ‘Hamiltonians’ and with

Hamilton forcefully argued that the future of the United States was dependent on the nation establishing itself in critical manufacturing industries. He argued that such industries may well fail to develop by themselves - especially given the competition from established foreign rivals - and that therefore the federal government needed to take strong measures to encourage the growth of domestic manufacturing. These ideas would be taken up by the Whig Party, becoming especially associated with Henry Clay's proposed 'American System' and would also be advocated for by prominent economic thinkers such as Matthew Raymond, his son Daniel Raymond and, later the prolific Henry Carey. They would provide the intellectual underpinnings justifying the early efforts at developmental state-building (Foner 1995; Ariel 2015; Palen 2016).

When discussing the efforts at developmental state-building in the Early Republic, scholars have understandably tended to focus largely on tariffs. Proposals for high tariffs on manufactured goods - making imports more expensive and thereby giving support to domestic industry - did become the central demand of American developmentalists. The achievement of a high tariff policy represented their most obvious success at a federal level. It is easy, however, to overstate the centrality of tariffs to the American developmentalist tradition. Hamilton himself had been sceptical of high tariffs feeling they risked sheltering inefficient producers (Hamilton 1791; Irwin 2004). His ideal vision was of an American state that would use selective subsidies and manipulate the supply of credit through its central bank so as to support only the most efficient manufacturers.⁵² He only supported tariffs as a second-best measure when he realised that insurmountable opposition to subsidies and to a centralised banking system made his ideal developmental state politically unobtainable.⁵³ Although high tariffs did reign for much of the

developmentalist thinkers describing Hamilton as a founding figure of the developmental state (Lind 1997; Cohen and DeLong 2016).

⁵²In taking this view, Hamilton was fairly in line with the practice of many later developmental states. It has been noted, for instance, that during the heyday of the Japanese developmental state in the 1950s and 1960s, formal tariffs were not always that high, with Japanese industrial policy relying instead on administrative guidance and the manipulation of the national credit markets (Johnson 1982; Amsden 1992; Wade 2004).

⁵³ It is interesting to note that Hamilton's ambivalence about high tariffs and preference for subsidies was lost among later developmentalist thinkers such as Raymond and Carey. Raymond, for instance, in his major work of political economy only mentions subsidies once. Here he dismisses the kind of careful distinctions Hamilton had drawn between tariffs and subsidies, insisting that 'imposts, bounties, drawbacks and corn laws, are all branches of the same system' and are 'only different expedients for accomplishing the same object' (Raymond 1823, 47). One can also detect in this early discussion concerning tariffs and alternative means of industrial policy such as subsidies, an early instance of what would become a major theme in American economic history - the mingling of liberal and developmentalist ideas. Among the arguments raised against subsidies was the contention that they would be more likely to encourage corruption, and that they would give special advantages to some, not enjoyed by others (Hamilton 1791). High tariffs were considered less susceptible to these dangers as they would benefit *all*

nineteenth century, they rarely functioned as American developmentalists would have liked. They often had rates on raw materials almost as punitive as on manufactured goods. It is fair to say that the Hamiltonians of the Early Republic never quite achieved the developmental state they wanted when it came to the federal level.

Instead, in the Early Republic, the area of developmentalist activity most relevant to understanding the modern US developmental state occurred in the state-level governments' experiments with industrial policy. Many American state-governments had a substantial tradition of active intervention to facilitate economic growth. Through infrastructure projects, the chartering of corporations, and the taking of ownership stakes in 'mixed public-private corporations', state governments took active measures to promote industrial development within their local economies. Perhaps the most well-known example of such activity was the corporation *the Society for the Establishment of Useful Manufactures (S.U.M)*, a brainchild of Hamilton's which was sponsored by the State of New Jersey for the purpose of developing the Passaic River Area.⁵⁴ *S.U.M* proved an inspiration for many similar efforts across the union with virtually all state governments engaging to some degree in economic planning.⁵⁵

Over time, this tradition of state activism at the local level would be utilised by the federal government. A 'land-grant system' emerged - where federal land would be given to the states which could then be sold or used to fund economic development projects – and was used to

internal producers rather than a select few (Hamilton 1791; Raymond 1823; H.C.Carey 1851;). In this way concerns about equity and combating corruption (with their origins in the liberal/republican tradition) clearly infiltrated the American school, moving it towards the policy of high tariffs (not itself of course a liberal idea) as a way to accommodate liberal concerns.

⁵⁴ *S.U.M* invested heavily in canals and other infrastructure, but also in the creation of gristmills to showcase the potential for such industries in the area. It is generally recognised as playing a major role in the growth of Passaic County, New Jersey, first as an industrial centre for cotton production and then later for steel and silk. It showcases both the scope of developmentalist activities in the Early Republic and how such activities were organised as a partnership between public and private actors.

⁵⁵ For the specific influence of *S.U.M* see Pace (2015) The classic works examining state-level activism in the Early Republic include Oscar and Mary Handlin's study of Massachusetts (Handlin and Handlin 1947), Louis Hartz's study of economic policy in Pennsylvania (1948) and Carter Goodrich's study of Virginia (Goodrich 1949). See also Frank Bourgin (1989) *The Great Challenge: The Myth of Laissez Faire in the Early Republic*. For a more recent treatment of state economic activism in the early republic see Larson (2001). All this literature emphasises the considerable diversity and heterogeneity in the economic programs pursued by different states. Nonetheless, all also stress a common emphasis on active state intervention in enterprise so as to support economic and technological development. A particularly common mechanism for intervention involved incorporation. In the Early Republic many states had no laws regulating general incorporation, so every new corporation had to be individually approved by the state-legislature (Hartz 1948). This resulted in a situation where the creation of new corporations often came with specific responsibilities to engage in developmental activity and indeed the very term corporation was understood as implying something of a custodial partnership between private actors and the state (Goodrich 1949).

support the development of industries such as the railroads, and agriculture. (Dobbin 1994, 54–58; Callen 2016, 34–38). The early American state thus saw the emergence of a particular *kind* of developmentalist order, one that employed both high tariffs at the national level to support US manufacturing and a decentralised ‘land-grant’ system that supported the states in pursuing active industrial policy.⁵⁶

The operation of this order would be significantly challenged by the late nineteenth century. The rise of large multi-state corporations, enabled by railway expansion, significantly disrupted the capacity of local governments to direct economic activity in their states (Dobbin 1994, Callen, 2016, Sawyer 2018) while the growing scope and power of the federal government upended the traditional balance between state and federal responsibilities.⁵⁷ Despite this structural change, as Dobbin has pointed out, ‘a remnant of realistic state mercantilism can still be found at the local and state levels of American government’ (Dobbin 1994, 94). Many states continued to practice industrial policy well into the twentieth century; producing regular economic development plans and funnelling support to targeted industries.⁵⁸ In doing so, they have at various times sought and received support from the federal government in ways which bear considerable similarity to the land-grant system.⁵⁹ This continuation of industrial policy suggests that the legacy of this early, states-led developmentalist order continues to maintain some influence on US politics.

Two points are particularly worth emphasising about this states-led developmental order originating in the Early Republic. Firstly, it demonstrates the beginning of a continuous trend in the history of US developmental state-building - that of the intermingling of developmentalist and liberal ideas to justify state action. State actors often justified their interventions in the

⁵⁶ In many ways this can be seen as part of a general trend in early American governance where a minimalist state at the federal level was combined with a highly active state at the local level (Gerstle 2015).

⁵⁷ These two trends were closely related since as Callen (2016) has argued, it was in significant part the expansion of the corporation that drove federal governments increasing control over national economic policy. The idea of the new managerial capitalism causing new challenges for the US government’s regulatory structure is also an important theme of Chandler’s *The Visible Hand: The Managerial Revolution in American Business* (1977)

⁵⁸ For a review of twentieth century state activism see particularly Eisinger (1990).

⁵⁹ *The Manufacturing Extension Program* (MEP), administered through the *National Institute of Standards and Technology* (NIST) is a particularly important example of this. First established in the 1980s, the MEP works with state governments to set ‘manufacturing centres’ in order to disseminate new industrial techniques in local economies. In its construction and organisation, the program was explicitly modelled on earlier efforts to establish state-level agricultural colleges and experimentation centres during the nineteenth century. For details about the MEP see in particular Paul Hallacher’s *Why Policy Issues Matter: The Advanced Technology Programme and the Manufacturing Extension Partnership* (Hallacher 2005).

economy in ways that fitted within the limited government philosophy of the American liberal tradition. In some states taking a stake in private corporations was often justified on the basis that if this provided the government a revenue stream, it would allow for lower taxes on the general citizenry (Hartz 1948, 82–88). Primitive public/private contracting arrangements were similarly justified on the basis that, aligned with the liberal tradition, it was preferable to rely on private industry than on the state directly. Significantly, such ideas were also employed to argue that, within the public-private partnerships that characterised the Early Republic's developmental activities, the government should be a relatively silent partner (Hockett and Omarova 2015). Certainly, Hamilton's advice to S.U.M was that public actors should observe the activities of supported corporations closely and threaten to withdraw funding when objectives were not being met, but should refrain from interfering positively in the decisions taken by private industrialists (Pace 2015, 42). This advice was largely echoed in the development plans of many states.⁶⁰ Thus, the public-private partnerships established in this order were relatively deferential to business power in comparison to common practices in most other developmental states where businesses defer to the state (Wade 2004).⁶¹

A second point to emphasise is that, in its core goals and orientation, this states-led developmental order differs substantially from the kind of national developmental state Hamilton had hoped to construct at the federal level. The vision of Hamilton and other developmentalists and economic nationalists had been for a state apparatus highly focussed on building national competitiveness, as well as binding the union together by encouraging economic ties between the states.⁶² Whereas the states-led developmental order was highly 'rivalistic' as individual states were more concerned with maintaining their own competitive position than with the union. As such, usually the industrial strategies of the different states were not complementary. States impeded each other, and state governments often resisted efforts to coordinate strategies at the federal level. This can be seen in efforts by states at

⁶⁰ See in particular Goordich's (1949) study of the 'Virginia system' of mixed enterprise. Goodrich discusses how while in Virginia, public officials were often strongly supportive of public projects meant to boost economic development, they made a practice of leaving it to private actors to initially propose potential projects and to front some of the initial capital, the argument being that private businessmen had the greatest knowledge and incentive to identify economically valuable projects. Larson (2001) discusses how this 'Virginia system' had influence far beyond Virginia, a reflection of that state's great significance in the Early Republic.

⁶¹ As detailed by Dobbin (1994), this led to many high-profile scandals in the development of railways where insufficient oversight by state officials allowed for large-scale mismanagement and personal enrichment on the part of industrialists.

⁶² The point about developmental state-building serving to unite the states was an important one with Carey (1865, 32), for instance, arguing that high tariffs would mean that 'the union would be bound together with hopes of steel'.

infrastructure improvement in the Early Republic that arguably would have been more efficient if controlled more at the federal level.⁶³

Similar dynamics applied with regards to industrial concentration. It is often an important goal within developmental states to construct ‘national champions’; large powerful firms capable of competing in international markets (Amsden 1992; Johnson 1982; Chang 1996; Nolan 2014). As will be discussed below, national champions also play an important role within American developmental state-building. The states-led developmental order however was somewhat antagonistic to this goal. Given that the creation of national champions implies a greater emphasis on large multi-state businesses less easy to integrate into state-level economic strategies, this order instead relied on co-operation between states. Consequently, many state-level governments in the decades that followed have been more inclined to support industrial policies aimed at promoting small businesses that are unlikely to grow into multi-state actors, thereby aiding the creation of state-level actors. This dynamic then – established in the years of the Early Republic has arguably had important consequences for the nature of the US developmental state.

The New Administrative State and the associative developmental order

As alluded to above, the late nineteenth century and the dawn of the Progressive Era saw several structural shifts in the US socio-economic system that had major implications for developmental state-building. The rise of large multi-state enterprises or ‘trusts’ posed major new challenges for economic jurisprudence beyond the power of the states (Chandler 1977; Callen 2016; Phillips Sawyer 2018). Meanwhile, the growth of a new administrative state bestowed on officials in the federal government powers nearly unimaginable at the Republic’s founding (Skowronek 1982; Balogh 2009). This period therefore offered a potent mix of circumstances in which new visions of the American state and its role in shaping economic development could emerge. One especially important vision that grew out of this medley was what Ellis Hawley has termed the ‘*associative state*’ (Hawley 1974). This was essentially a conceptualisation of economic governance as a partnership between the federal government and the nation’s leading

⁶³ This is a point particularly stressed by Larsen (2001), who especially highlights the failure of the Gallatin plan - a proposal for creating an integrated national canal system which was torpedoed by interstate rivalry as an example of what was lost by having a state-led rather than national program of economic development.

firms that would collectively employ ‘scientific rationality’ to coordinate industrial activity and drive technological improvements (Hawley 1981; Barber 1985).

Much of the state-building that powered this ‘associative’ developmentalist order occurred in the bureaus of what would become the Department of Commerce.⁶⁴ These efforts would reach new heights under the leadership of Herbert Hoover who, first as Secretary of Commerce and then as President, did much to refine and articulate the idea of associationalism.⁶⁵ Such efforts would, to a large extent, continue in the programs of the early New Deal characterised by considerable continuity with the Hoover administration.⁶⁶ This associative order, spanning from the late 1800s to the 1930s, thus represented a significant force in American economic governance.

It is clear from examining the activities of this order and the ideas with which it was connected, that associationalism can be characterised as a form of developmentalism. It is particularly

⁶⁴ An early example of this was the National Bureau of Standards (NBS). Founded in 1901, under the directorship of Samuel Stratton, the NBS worked closely with professional associations of technicians in order to develop common standards within industries and encourage development. One of its accomplishments was to work with the *American Association of Electrical Engineers* in order to develop common measurements for electrical power, thereby shaping the development of the National Electric Grid (Cochrane 1966, 103–10). Block and Keller place a strong emphasis on the importance of the NBS as an early pilot agency within the US developmental state (Block and Negoita 2016).

⁶⁵ Although Hoover is popularly regarded as a champion of laissez faire, an avalanche of ‘New Hoover scholarship’ has sought to demonstrate that this was far from the case (Hawley 1981; Barber 1985). Instead Hoover’s political philosophy can best be characterised as an attempt to reconcile the values of individualism and scientific planning. A self-made millionaire, he deeply believed in the importance of individual initiative and a process of free competition that allowed exceptional people to rise in society. He therefore was strongly opposed to socialism or forms of state activism that threatened to disrupt this. At the same time, Hoover’s background as an engineer and his experience directing armament efforts during the First World War, convinced him that excessive competition was often inefficient, leading to waste and needless replication of effort. His solution, that he described as ‘American individualism’ was for a partnership between the federal government and leading industrialists that would address common problems and prevent competition from getting out of hand.

⁶⁶ These lineages are particularly explored in Hawley’s *The New Deal and the Problem of Monopoly* (1966). Closely related to this claim is the argument that there was a ‘First New Deal’ from 1933–1934 concerned with the restructuring of the American business system and which drew more on the associationalist ideas of the 1920s (Fraser and Gerstle 1989). This is typically contrasted with a ‘Second New Deal’ after 1936 that focussed more on the construction of a welfare state and the embrace of pseudo-Keynesianism. Later New Deal scholarship questioned the sharp separation between the two New Deals and much of this criticism has been convincing. It is certainly true that from the outset the New Deal included a wide variety of interests and ideas none of which can be neatly separated by time period. However, this paper nonetheless embraces the view that the ‘First New Deal’ remains a useful way to characterise the greater preponderance of associationalist thinking in the Roosevelt administration from 1932–34. Certainly, various components of the early New Deal policy bore direct marks of Hoover’s approach. *The Reconstruction Finance Corporation* (RFC) which had been established to plug holes in the collapsing banking system by offering credit to new businesses had been established by Hoover, and the new *Agriculture Adjustment Agency* (AAA), which sought to prevent farm foreclosures by stabilising higher prices- had fairly direct precedents in the Hoover administration’s Farm Policies 1929–33. Rexford Tugwell, an influential early New Dealer who headed the AAA was willing to say ‘We didn’t admit it at the time, but most of our agenda we stole from Hoover’ (Quoted in Lind 2012, 92).

striking how closely Hoover's vision for the Department of Commerce, as described by Hawley, aligned with the classical picture of a 'pilot agency' within a developmental state:

In essence the Commerce Department was to become a department of economic development and management; other agencies would still be responsible for specific sectors of the economy, but Commerce would serve as a general policy coordinator. (Hawley, 1974, 120)

Much the same could have been said regarding the Ministry of International Trade and Industry (MITI) in Japan during the classic period of Japanese developmentalism (Johnson, 1982).⁶⁷ The deep affinity between associationalism and the classical developmental state can be further seen by a comparison of some of their common practices. Among the activities pursued by the associative order were;

1. **Correcting information failures and strategic planning:** As with classical developmental states, the associative order placed great emphasis on correcting informational failure and disseminating a long-term development strategy among firms. This focus was seen especially in the proliferation of Department of Commerce led 'conferences' in which leading firms in an industry came together in order to develop plans for that industries development.⁶⁸

⁶⁷ Note that here I am primarily comparing Hoover's department with the idea of MITI as it has been depicted in American political culture. The classic discussion of MITI in the west was provided by Johnson (1982) which depicted MITI as an immensely powerful body, treated with deference by both other departments and the private sector and recognised as primarily responsible for guiding Japan's development. Much later work argued that Johnson misinterpreted the place of MITI in Japanese political economy (Woo-Cumings 1999). Regardless, it is clear that the influence of MITI did decline after the 1980s, with the department being abolished in the early 2000s. Johnson's depiction of MITI, however, was highly influential on American thinking about Japan, especially during the 'industrial policy debate' discussed in paper two. Consequently, it is useful to consider how this idealised vision of MITI, influential in American political debates, compared with the historic practices of the United States own Department of Commerce.

⁶⁸ In these conferences, industrialists would be invited to discuss an agenda (determined by Commerce officials) concerning pressing problems of the sector and to reach an agreement on what their common policy would be. Such agreements were then publicised by the Department of Commerce with the aim of facilitating business and investor confidence in the sector (Hawley 1974; Lee 1984). Many such conferences were organised by Hoover's Commerce Department, often with significant results. For instance, a series of conferences for radio-broadcasters essentially established the funding model for broadcasting in the United States (Sarno 1969; Dempsey and Gruver 2008).

2. **Creating demand in new industries:** Again, echoing the behaviour of classic developmental states, officials in the associative order would spearhead technologic development by providing assured demand for innovative products and services.⁶⁹
3. **Supporting industrial concentration.** Perhaps most strikingly, associationalism often involved measures that sought to restrict competition, encourage mergers and acquisitions, and even support price-fixing and similar arrangements.⁷⁰ While deeply suspect from a free market point of view, such activities cohere with a developmentalist assumption that excessive competition is often damaging to a country's industrial structure (Chang 1996).

The associative developmentalist order, based within the federal civilian government and especially the Department of Commerce, thus shared deep affinities with the classical version of a developmental state. These affinities are even starker when looking at the policy innovations associated with the early New Deal. In particular the activities of the National Recovery Administration (NRA) were strongly developmentalist in the degree of involvement taken in the internal business decisions of firms,⁷¹ as were such initiatives as the Tennessee Valley Authority (TVA) and the Agricultural Adjustment Agency.⁷² The New Deal also saw a substantial expansion in the government direction of credit, with the Reconstruction Finance Corporation (RFC), which had been established by Hoover, swelling rapidly in both funding and scope.⁷³

⁶⁹ For example, the Department of Commerce, under Hoover's auspices, played a major role in the development of US commercial aviation. Not only did they finance navigational aids and safety inspections but also radically expanded government airmail services to create a reliable market for commercial aviators. (Lee 1984).

⁷⁰ Hoover, for instance, engaged in price-fixing activities in response to the Great Depression. He strongly encouraged leading firms in many industries to jointly fix their prices and wages, thereby, he thought, maintaining sustainable profits, and preserving the nation's industrial structure (Lind 2012; Hawley 1966).

⁷¹ Created by the National Industrial Recovery Act of 1933 and housed within the Department of Commerce, the National Recovery Administration was empowered to negotiate codes of 'fair practice' within all major industries, in order to eliminate the deleterious effects of competition. Included within this was the authority to negotiate fixed prices and output restrictions, under the idea (also central to Hoover's philosophy) that cut-price competition would damage the industrial structure and delay recovery (Finegold and Skocpol 1995; Himmelberg 1993; Hawley 1966). In large part, The NRA thus represented a more empowered and explicit iteration of the kind of coordinating authority that Hoover had sought to create within the Department of Commerce. The two-year span of its charter, during which it negotiated codes for most of the country's major industries, can reasonably be regarded as the high-water mark of the associative developmentalist order.

⁷² A federally owned corporation created to promote economic development in the Tennessee Valley area, the TVA funded a vast array of public works and educational projects aiming to disseminate modern scientific expertise. It became a model for various other proposals for regional development councils and also for how state actors might seek to modernise agricultural economics (Culvahouse 2007).

⁷³ Whilst in the Early Republic, state actors had loaned land to encourage agriculture and settlement of the country, the associative order instead extended large amounts of government backed credit to aid industrial development. The centrepiece of such efforts was the (RFC). Initially intended as a temporary means to recapitalise the collapsing finance industry in the wake of the 1929 Wall Street Crash, the RFC expanded beyond the New Deal into

Yet while the early New Deal in many ways represented the high point of the associative order, it also showcased the limits and internal tensions with which that order was beset. By the mid-1930s a strong conservative reaction to the New Deal swept away many of its key institutions. In particular, the NRA, the heart of the early New Deal, was declared unconstitutional in a landmark case in 1935 (Phillips-Fein 2010, 92-95). Although the New Deal would rebound from these setbacks, it did so in significant part by abandoning its earlier focus on restructuring American capitalism through the direction of industry. Instead, the so-called 'Second New Deal' would focus more on the construction of a welfare state and the embrace of proto-Keynesian demand-side policies (Fraser and Gerstle, 1989). Along with the revolt against the New Deal, would come a general repudiation of the associationalist philosophy from which it was said to have emerged and the American right increasingly adopting a more thorough free market economic philosophy.

It is worth dwelling on the decline of the associative order in the 1930s as it highlights two important features about developmental state-building in the United States. Firstly, the possibilities for developmental action have long been constrained by the influence of liberal notions of non-interference. When comparing the activities of the NRA, to the earlier work of Hoover's department of Commerce, much of the difference appears to come down to how deferential officials were to the demands of businessmen. Where Hoover had made requests and suggestions, the NRA made demands, thereby taking a more directive approach over the private sector. It seems plausible then that what undermined the associative order was the New Deal going too far in attacking the basic liberal ideas of free enterprise within which attempts at developmental state building were constrained.

Secondly the associative order was in part, undermined by the legacy of the earlier states-led developmentalist order. The focus that associationalism placed on building national competitiveness and working through a select number of large firms and business associations, meant it tended to circumvent both state governments and the small and medium-sized enterprises at the centre of their economic strategies. It was also such businesses that often found it hardest to comply with the regulatory standards set by the associative order in collaboration with big business. Such circumstances caused the associative order to run afoul of

something of a national state investment bank as it funnelled credit into firms and local governments in virtually every sector of the economy.

the small producerist Brandisean philosophy important to the states-led order. Such conflict was indeed visible in the Supreme Court case which struck down the NRA; a case which had been brought by a small New York Business unable to comply with NRA regulation. Significantly after the verdict for that case Justice Louis Brandeis told Roosevelt's aides to 'go back and tell your President that this court has told him it is not going to permit the centralisation of power...I warn you to send back to the states all those bright young men you have brought to Washington. It is in the states they are needed' (quoted in Lind, 2013, 293-4).

Despite its decline, elements of the associative order would persist within various institutions that survived the 1930s. The RFC, for example continued its operations until 1957, after which much of its lending was then subsumed into government sponsored enterprises such as the Federal National Mortgage Association (known colloquially as Fannie Mae). Other legacy institutions included the Import-Export Bank, and the Small Business Administration became important actors in US economic policy. Another highly significant legacy produced by the associative order in the 1930s was the concentration of trade policy increasingly in the hands of the executive.⁷⁴ Moreover, at the level of norms, it has been argued that this era left an important ethos within the Commerce Department concerning its purpose; namely to play a directive role in shaping the overall industrial structure of the US economy. This ethos, which has been documented by Hart (1998) through interviews with Commerce officials, had an important impact on behaviour and the position Commerce officials took in debates on industrial, trade and competitiveness policy as the twentieth century progressed.

⁷⁴As discussed earlier, high tariffs had proved an imperfect instrument for US developmentalists because their control by Congress led them to be heavily distorted by pork-barrel politics (Irwin 2017). A major goal of actors within the associative order had been to move tariff-setting power into the hands of the executive, thereby making it more useful as a tool to enhance American industry (Barber 1985, 34–36). Such efforts met with little success during Hoover's tenure at Commerce. Yet, during the period of the New Deal, a substantial movement of tariff making power to the executive was achieved through the *Reciprocal Trade Agreements Act* (1934). This Act empowered the executive to set tariff rates in agreement with other countries for a defined period, to be extended subject to Congressional approval. Within this new arrangement, power over tariffs would not ultimately fall to the Department of Commerce but to the Department of State, where secretary Cordell Hull (a zealous believer in the capacity of international trade to promote peace) began the process of negotiation for reciprocal tariff reductions. The new settlement on trade policy has often been interpreted as a victory for liberal/free trade ideas over economic nationalism and developmentalism and to some extent it was. Yet, in another sense, it marked the achievement of a long-running developmentalist goal; to take tariff policy out of the ineffective hands of Congress and into the hand of executive agencies.

The National Security Developmentalist Order

The progressive era and the New Deal caused a much more expansive federal civilian government to be layered atop the traditional states-centred governing system of the Early American Republic. Following the First and Second World Wars and with the emerging Cold War, a no less energetic round of state-building would see a permanently enlarged ‘national security state’. Given that this state was deeply concerned with the US preserving the economic and technological dominance which underlay its superpower status, this ‘national security state’ in turn would have important implications for US developmental state-building (Weiss 2014).

Debates about economic development in the United States have always been deeply interconnected with discussion of national-security goals. Ever since George Washington declared that the safety and interest of a free people ‘require that they promote such manufactories as tend to render them independent of others’ (1790) military necessity has been an important justification for government intervention in industrial development. A celebrated example of this support concerns how the War Department in the nineteenth century spurred the development of the ‘American system of manufacturing’, primarily through its armouries at Springfield Massachusetts and Harpers Ferry Virginia.⁷⁵ Moreover, the experience of the First World War, and the mobilization of industry to serve national goals, had an important influence on the developmental ambitions of the associative developmental order.

It was, however, the Second World War, and the following Cold War confrontation with the Soviet Union, that really produced what I term a ‘*national security developmentalist order*’. The Second World War and the Cold War proved transformative for American developmentalism in at least two ways. Firstly, at the geopolitical level, as the United States

⁷⁵ This case is worthy of some extended discussion as it evinces that practices for fostering innovation that are important to the modern US defence establishment - particularly as seen in the *Defense Advanced Research Projects Agency* (DARPA) - were, to some extent, already present in the nineteenth century. The initial goal of the War Department had been to find a more efficient way to manufacture rifles and was motivated by a belief among armourers - themselves leading engineers - that better use of interchangeable parts could improve production. The War Department worked closely with a range of private contractors, often forcibly encouraging them to share their discoveries with each other in order to spread best practice and competition. Among the many contractors the War Department employed was Eli Whitney who, on the strength of his achievement in inventing the cotton gin was employed to produce 10,000 muskets in two years; it actually took him 8 years as he dedicated time to refining the machine tools necessary for production, but this did not stop him from securing another contract to deliver 15,000 muskets in the required two years. Having successfully perfected the technique, the War Department also put in place policies to encourage the spread of interchangeability to commercial areas such as sewing machine, reaper and steam engine manufacturing, thereby contributing to what has been called ‘the Golden Age of American Manufacturing’. The case shows that many of the attributes which still define innovation in the US national security state’s approach to innovation; close ambitious targeted goals, close public-private cooperation, high tolerance for failure when experimenting with new ideas, and a concern with promoting spin-offs from new military innovations, have their origins deep within American history.

emerged as the world's leading superpower, a determination grew that the country should permanently maintain sufficient military strength to project power virtually anywhere in the world. Historically, the United States had been a relatively demilitarised nation compared to many European states, however, in this new epoch, a large army, navy and air force, as well as the infrastructure of bureaucracies necessary to maintain them became a permanent and immensely powerful actor in American politics (Weiss 2014). The period, therefore, saw the rise of a diverse set of defence-related agencies, (and private sector/university interests supported by them) which Weiss (2014) has termed the 'national security state'. Secondly, WW2 - more than any previous conflict - had been a 'scientists war'. The application of powerful new technologies such as radio, jet engines and of course, most terrifyingly of all, nuclear weapons were seen as having held the key to victory (Weinberger 2017). Consequently, especially after the hysteria surrounding Soviet technological prowess produced by the 'Sputnik moment', a bedrock consensus emerged that American military pre-eminence must be based on technological superiority and that the national security state must therefore be an innovation state (Weinberger 2017). This focus on innovation dovetailed naturally with the keen interest many in government and in the private sector had in commercialising technological discoveries made during the war. It also connected to an optimism about government support for science expressed in Vannevar Bush's famous report *Science: The Endless Frontier* (1945).

The exact boundaries of the national security state are somewhat opaque. Weiss has argued that the goal of boosting innovation, to protect and promote the military-industrial base, had become central to many nominally civilian agencies. Among the more obvious components of this state are the Department of Defence, the procurement and research offices of the US Army, Navy, Air Force and Central Intelligence Agency (CIA). Other internal elements of the Pentagon in particular the Defence Advance Research Project Agency (DARPA) are also of recognised importance.⁷⁶ Through their procurement programmes, research and development investment, and targeted support of particular ventures, these agencies played a critical role in such

⁷⁶ In addition, other important civilian agencies which Weiss describes as part of the national security state include the National Science Foundation (NSF), National Aeronautics and Space Administration (NASA), the National Institute of Health (NIH), the Department of Energy (DOE) (Weiss, 2014, 47-49). Weiss' definition of the National Security State is extremely expansive and arguably overstates the influence of national security concerns on US industrial policy making (for arguments to this effect, see Block and Keller, 2016). For instance while it is true that the Department of Energy has deep connections to the national security state, being responsible for the maintenance of the US's nuclear arsenal, it is doubtful that Department of Energy officials have always conceptualised industrial policies on, for example energy conservation, as directly connected to national security (Ikenberry 1988).

industries as aerospace, nuclear energy, hydraulic fracking, micro-electronics and information technology.⁷⁷

This national security developmentalist order was built on close collaboration with a select group of major defence contractors⁷⁸. The relationship between these firms and the defence establishment was so intimate that Weiss describes it as blurring the boundaries between state and private actors (2014, 146-9). In the early years of emerging industries such as aerospace, supercomputers and semiconductors, the agencies of the national security state represented a large share of total sales. This allowed them to exert considerable influence over the firms in question, often requesting products designed to exhaustive military specifications (Weiss 2014, 45). In this way procurement emerged as a central mechanism through which the national security order could shape the American industrial structure.

As well as relying on large firms, however, the national security state was also instrumental in broader efforts to develop the US innovation system by encouraging the growth of start-ups. Particularly noteworthy was the role of national security concerns in justifying the *Small Business Investment Act* of 1958. This legislation kick-started the growth of the US venture capital industry by creating a vehicle – the *Small Business Investment Company* (SBIC) -through which new venture capital firms would have their funding matched by the federal government (Weiss 2014, 33; Nicholas 2019).⁷⁹

⁷⁷ For case studies on these sectors, see Weiss (2014) as well as Block and Keller (2016).

⁷⁸ Much of the ‘cosiness’ of this relationship has been critiqued as essentially a case of government captured by private interests, with pervasive concerns about profit-oriented defence contractors using their lobbying power to gain lucrative contracts for unnecessary military projects. Concerns about the military-industrial complex and its implications for US society and foreign policy of course span the political spectrum from Dwight Eisenhower’s farewell address to a vast number of critiques on the New Left since the 1960s. On the other hand, a plausible case can be made, as Weiss and others have argued, that US-defence establishment support for these leading firms reflected a genuine belief that their profitability is important for the general health of the US military-industrial base.

⁷⁹ The SBIC program was directly inspired by the Boston based American Research Development Corporation (ARDC), which has widely been recognised as the genesis of the American venture capital (Nicholas 2019, 111–32). The ARDC in turn 1946 with the primary intention of commercialising new technologies developed during world war two. This is a good example of how the origins of the US venture capital industry are deeply intertwined with the rise of the national security order. The creation of the SBIC program is also an important example of ‘submerged state’ practices within the domain of industrial policy. In pursuit of the ultimate goal of supporting high technology industries, the federal government chose to act *indirectly* by underwriting the activities of venture capitalists. In this way the mid-twentieth century saw the beginning of a pattern whereby federal industrial policies were ‘fronted’ by private operators – and therefore obscured. As discussed in Paper 3, this trend towards underwriting the activities of venture capitalists has in many ways accelerated in recent years through the *Small Business Investment and Research Program*, and through the proliferation of *Government Sponsored Venture Funds* (Brander et al 2015; Weiss 2014, 48)

Many would argue that this national security order has been in decline since the 1970s. A period of détente in the Cold War⁸⁰ and increasing focus on the economic challenge posed by nations such as Japan meant broader preoccupations concerning general economic competitiveness predominated. In addition, with increasing demand for high-technology products in the civilian sector, leading firms were less reliant on the national security state as a customer and thus less susceptible to its influence.⁸¹ The venture capital sector meanwhile - which the national security state had played a large role in creating, - was increasingly diversifying with entirely private venture capital firms coming to predominate over the older SBICs.⁸² Again, this reduced the degree of control that the national security state had over the entrepreneurial ecosystem - making it a more complex and difficult process to procure the kind of technological innovations it required. All of these factors combined to put the national security developmentalist order under deep stress by the 1970s thereby forcing significant transformations.⁸³ None of these challenges, of course, meant that the national security state ceased to become an important driver of innovation and economic growth. Indeed, some of its most spectacular achievements such as the series of breakthroughs supported by DARPA that would lead to the creation of the internet, lay ahead of it. Yet, the character of the national security state was radically altered after the 1970s, with agencies having to pay increasing attention to the commercial goals of their private sector partners in order to attract them to projects.

Again, it is important to note that the national security developmental order differs somewhat in its orientation from the other two orders discussed in this paper. For the national security order, the goal of developmental policies is ultimately only to preserve US technological primacy and not necessarily to promote the broader goal of US economic competitiveness. This is significant as, in some circumstances, tensions arise between the requirements of the civilian economy and the preservation of US technological leadership. In particular, while large benefits may accrue from commercialising technologies developed by the military, such commercialisation increases

⁸⁰ Of course, this was not a smooth process, with the Soviet invasion of Afghanistan and the strong anti-Soviet tone of Ronald Reagan's first term marking a renewal of tensions and a dramatic military build-up.

⁸¹ A good example of this is the market for integrated circuits. In 1960, 70% of all circuits produced in the US were bought by the American government. By 1980 this share had fallen to around 10% (Weiss, 2014, 97). This naturally has meant the US government has less power over producers in the market and such producers have less incentive to tailor research and development around the needs of the US military.

⁸² For instance, while in 1963 SBICs still made up over 70% of all venture capital investment in the United States, by 1988 they would make up less than 10 %. See Nicholas (2019, 98).

⁸³ The nature of these transformations will be discussed further in the next section and then more, following this in Paper 3.

the dispersal of such technologies and risks that they will be adopted by other states. Likewise, foreign, direct investment into the US and US exports of high technology products, while highly desirable from a civilian economic perspective, again potentially erode the US technological edge. Crucially, the national security order is thus in tension with the other orders that have shaped US developmental state building.

Conclusion

This paper has offered a brief overview of the history of American developmentalism, distinguishing between three distinct developmentalist ‘orders’. Each of these, I have argued, was established at different times, under different conditions and each centred on a different locus of authority within the American state. They also differed somewhat in their basic orientation and practices. Within the states-led order of the Early Republic actors were often concerned primarily with the commercial competitiveness of *their* state within the union. Those within the associative order were concerned with building national American competitiveness through close cooperation with the nation’s leading firms. Finally, within the twentieth century national security order, actors were specifically concerned with the protection of the military-industrial base.

As I discuss in paper three the divisions between these different orders have had important consequences for the construction of the modern US developmental state. During the 1970s, in what became known as the industrial policy debate, I argue, elements on the left sought to combine the vestiges of these three developmentalist orders into a more cohesive developmental state. Such efforts at coordination however, fell foul of the recurrent tensions between these orders regarding how an industrial policy should be pursued and what its ultimate goals should be. Relevant actors, whether in state governments, federal civilian agencies such as the Department of Commerce, or the national security state, all had strong reasons to resist the delegation of powers and responsibilities outside of their institutional locus. As such the most recent opportunity to create an explicit American industrial policy would end in failure and instead a political process would be set in motion beginning in the 1980s from which Block and others have dated the rise of the modern US developmental state.

Attending to this pre-history of the modern US developmental state - as represented by these three historical developmentalist orders – therefore illuminates part of the reason why the US developmental state has remained a hidden one. Different institutional foundations and conflicting perspectives render it difficult to house US developmental policymaking under one single locus of authority. As a result, the modern US developmental state has remained highly dispersed and lacks the kind of overall pilot agency that has characterised many other developmental states. This dispersal is potentially a source of strength, allowing as it does considerable flexibility and freedom of action by different power centres. Yet such dispersal, almost unavoidably, has the effect of making the US developmental state more opaque and harder to perceive.

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Paper Three

Rethinking the Industrial Policy Debate of the 1980s: The Political Significance of a Losing Idea

The ‘industrial policy debate’ - a period in the US where proposals for a national industrial policy commanded widespread attention but were ultimately rejected in favour of ‘supply-side’ ideas – is now a little remembered episode in the history of the 1980s. Yet, this paper argues it had greater significance for American economic policy than has commonly been recognised. Drawing on Congressional debates and committee hearings of the period, it argues that the failure of industrial policy was in part due to the role of the venture capital industry and to the contention that industrial policy was institutionally impractical in the United States. The paper asserts, however, that key underlying assumptions about the effectiveness of industrial policy were incorporated into the neoliberal supply-side paradigm that emerged in the US during the 1980s. This had an important impact firstly on the emerging ‘competitiveness agenda’ in US science and technology policy and secondly on the approach taken to foreign industrial policies by US trade policy officials. The paper therefore seeks to highlight the role the industrial policy debate played in the development of the post 1970s neoliberalism. In so doing it also highlights the subterranean process through which ‘losing’ policy ideas can wield substantial long-term influence.

Introduction

Scholars of policy history have a natural bias towards winners. It is the ideas that triumph, making it through the perilous obstacle course of political debate to become established in policy, which most obviously shape our lives and attract the lion’s share of attention from historians and political scientists. Yet as is increasingly being recognised, the history of losing ideas can also be worth studying (Tulis and Mellow 2018). This is partly because the losers of today can be the winners of tomorrow; the defeat of Barry Goldwater in the 1960s, for instance, attracts interest because it is viewed as presaging the later triumph of Reagan. Asking *why* certain ideas fail can also reveal things about the societies in which they were debated; to take a famous example, asking why socialism failed in the United States has proved a fruitful starting point for research on American political culture (Lipset and Marks 2001). Beyond this however, I would suggest that ‘defeated’ ideas are worth paying attention to as they often exert a

subterranean influence on the paradigms that triumphed over them. By altering the thinking of their enemies, defeated ideas long since felled on unremembered battlefields, can leave a legacy of surprising significance.

This paper examines the legacy of one such defeated idea; the proposal that the United States should adopt a national industrial policy. For a short period in the 1970s and 1980s this idea became a major topic of discussion within American politics. (Thompson 1989; Graham 1992; Honglin Zhang 2020). In the face of deep economic malaise, and with the American left grappling with the perceived failure of Keynesian demand-side management, it was increasingly argued that what the US needed was a coordinated, national policy to direct capital towards high-value sectors of the economy, and thereby assist with technological upgrading and structural transformation (Bluestone and Harrison 1982b; Magaziner and Reich 1982; Reich 1983; Thurow 1984;). Such proposals harked back to a long developmentalist tradition within American politics, the legacy of Alexander Hamilton and the New Deal (Reich 1983; Thurow 1984). They also invoked examples of foreign developmental states, above all Japan, as exemplars the US could hope to imitate. To American liberals such examples appeared to offer an original, exciting, and humane alternative to the neoliberal ‘supply-side’ ideas being advanced on the right (Graham 1992). For all these reasons, talk of industrial policy swelled tremendously in the early 1980s, with an onslaught of legislative proposals⁸⁴ and with pundits predicting it was only a matter of time before an industrial policy was adopted.⁸⁵ Industrial policy thus emerged as the left’s main alternative to the supply-side ideas associated with Reagan. Robert Reich, perhaps the highest profile proselytizer for industrial policy, was clear in framing the future as a battle between these two policy proposals:

Two broad policies are available...one goes by the name supply-side economics, the other, industrial policy. Neither has been put to the full test in the United States, but it is reasonably certain that one of them, or a combination of both, will form the basis of American economic policy during the next decade. (Reich 1982a, 4)

⁸⁴ Proposed industrial policy legislation included the ‘*National Industrial Strategy Act*’ proposed by Representatives Stan Lundine and David Bonior, the ‘*Industrial Competitiveness Act*’ proposed by Congressman John Lafalce, and the ‘*High Production Strategies to Rebuild America*’ bill proposed by Congressmen Richard Ottinger. There was also a high-profile Senate Democrats plan championed by Senator Edward Kennedy. For a summary of these legislative proposals see Joint Economic Committee 1984a, 18–22.

⁸⁵ The future Nobel laureate in economics Paul Krugman, for instance, predicted that ‘at some point in the next decade, the US will probably adopt an explicit industrial policy’ (Krugman 1983, 123).

Yet in this battle between industrial policy and supply-side policy, it soon became clear which side was winning. By the close of 1983, a strong pushback from the political right as well as some Keynesian sceptics of industrial policy would drive the idea out of the limelight (Graham 1992). While the neoliberal paradigm of ‘supply-side economics’ would continue to thrive and go on to shape much of public policy reform in the 1980s and 1990s, its erstwhile competitor of industrial policy would recede into the political wilderness (Campbell 1998).

Today, the industrial policy debate stands as a little remembered episode in the policy history of the 1980s. It has mostly received attention from later day industrial policy advocates, who interpret the episode as a tragic ‘missed opportunity’ to grapple with the problem of socio-economic dislocation.⁸⁶ The industrial policy debate has also prompted some discussion among ideational scholars interested in the circumstances in which policy proposals succeed or fail. Campbell (1998) for example, sought to contrast the success of supply-side economics with the failure of industrial policy. In his analysis, issues of framing and the general scepticism of government felt by many policymaking elites were the critical issues. As he put it;

Supply-side economics became politically influential because it offered clearer and simpler programmatic policy guidelines for resolving important economic problems, better fit the existing cognitive and normative constraints that policymakers faced and was more effectively framed for discursive purposes than industrial policy. (Campbell 1998, 378).

In such accounts the implicit assumption is that the industrial policy movement did not achieve much in altering American economic policy. This paper offers a somewhat different interpretation of the industrial policy debate and its significance. It interprets the debate as a moment when, following the collapse of the post-war Keynesian consensus, elements of the left sought to construct a developmentalist industrial policy paradigm as the basis for US economic policy. In so doing, the paper argues, they sought to synthesize several elements of historical US developmental state-building - a states-led developmentalist order, the vestiges of associationalism in the federal civilian government and a plethora of industrial planning activities undertaken by the national security state - into a cohesive national paradigm.⁸⁷

⁸⁶ This, for instance, is the overriding theme of Graham (1992), the most comprehensive account of the industrial policy debate. For a similar discussion on industrial policy as a ‘road not taken’ see (Faux 2009).

⁸⁷ These ‘orders’ are discussed in Paper two of this thesis.

Underlying this proposed paradigm were a set of basic assumptions including; the strategic nature of global markets as a limitation on the case for free trade, capital market imperfections as a justification for greater state involvement in the economy and the possibility of developmental state building as evidenced by the example of states like Japan.

This paradigm ultimately proved no match for the competing neoliberal one emerging under the rubric of supply-side economics. In accounting for this failure, the paper points to two factors largely unrecognized in existing accounts. Firstly, the **inter-order conflict within the industrial policy coalition**. I point to significant disagreements that emerged between state-governments, federal civilian officials, and Department of Defense officials over the *form* a US industrial policy should take. These divisions - deriving, I argue, from historic features within US developmental state-building - jeopardized the emergence of an industrial policy that could gain support from significant elements within the American state. Secondly, I emphasise **the ability of supply-siders to incorporate industrial policy assumptions within their paradigm**. During the debate, I argue that supply-siders were able to effectively accept and incorporate some of the industrial policy movement's basic assumptions and policy goals whilst simultaneously rejecting its policy prescriptions as appropriate solutions. They argued that while industrial policy might be a possible option for other states such as Japan, it was not compatible with American culture and institutions. Supply-siders were further able to recognise the problem of capital market gaps whilst arguing there were better solutions than state-directed industrial policy to deal with them. In this regard, I highlight the previously unacknowledged role of the venture capital industry in the industrial policy debate. With this industry expanding rapidly in the 1980s, supply-siders argued that government support for private venture capital provided a surer way to improve US competitiveness than government directed industrial policy. By incorporating assumptions of the proposed industrial policy regime within their paradigm, whilst rejecting the attendant policy prescriptions, supply-siders defanged the industrial policy idea and assured its ultimate defeat.

In making this argument, the paper provides a more complete explanation for why the industrial policy idea failed. I further argue that even in defeat, the *idea* of industrial policy had a significant long-term influence. While proposals for an industrial policy may have been rejected, the movement's emphasis on the significance of strategic trade, capital market gaps and effective foreign developmental state-building gained substantial acceptance in the

immediate aftermath of the debate. To illustrate this argument, I compare the industrial policy episode with the so-called ‘national competitiveness debate’ which began in the mid-1980s and continued into the 1990s (Hughes 2005). Here I show how the assumptions that powered the industrial policy movement came to wield considerable influence during this later debate.

Following on from this and drawing on the theory of ideational reassociation developed in the first paper of this thesis, I argue there were two long-term consequences for American economic policy. Firstly, the competitiveness debate saw a reworking of US science and technology policy - which effectively created a quasi-industrial policy - as well as a rejustification of low capital gains tax to solve the capital-gap problem. Together these processes helped to create what Block (2008) and others have termed the ‘hidden US developmental state’ - one in which, I argue, the venture capital industry played a crucial role. Secondly, I argue that although industrial policy had been judged unworkable in the United States, increasing recognition of the effectiveness of foreign industrial policies, especially Japan’s, meant that these policies were increasingly seen as a *problem* for US competitiveness. These factors combined led, I argue, to a process of adaptive problem-solving resulting in the use of aggressive, unilateralist trade negotiation towards foreign developmental states. I interpret this as the birth of an anti-developmental order in US foreign economic policy.

In making this argument, the paper draws extensively on committee hearings held during the 96th, 97th and 98th Congress. It especially relies on proceedings from the *Joint Economic Committee* (JEC). The JEC was one of the key forums in which industrial policy was debated. It held a series of hearings on industrial policy between the years 1979-1984 before producing an influential report dismissing industrial policy as an ineffective solution to American economic problems (JEC-R 1984). The JEC was also a critical forum in the early stages of the ‘competitiveness debate’, holding a series of hearings into the state of national competitiveness, and issuing a series of reports and staff studies that helped kickstart the competitiveness agenda (Hughes 2005, 110-20). Characterised by close cooperation between Republicans and moderate Democrats the JEC was also a critical forum where the supply-side policy regime began to emerge and gain influence (Bartlett 2015). As a result, the detailed proceedings of the JEC meetings and debates (recorded verbatim) are a useful data source to track *how* assumptions from the industrial policy movement came to infiltrate the supply-side policy regime, ultimately influencing the competitiveness agenda.

The paper also draws substantially on the hearings on industrial policy held by the *House Subcommittee on Economic Stabilization of the Committee on Banking Finance and Urban Affairs* (HSES) between 1983 and 1984. These hearings were chaired by a leading proponent of industrial policy within the Democratic Party - John LaFalce - who by mid-1982 was already seeking to craft an 'Industrial Policy Bill' which he hoped would form the basis for Democrat legislation on the issue.⁸⁸ The hearings held in this subcommittee were less an open-ended investigation into industrial policy than an attempt to build a coalition for industrial policy and a viable detailed proposal this coalition could support. They are nonetheless useful in illuminating the internal issues that divided industrial policy advocates and prevented them constructing a cohesive paradigm to rival supply-side economics (HSES 1983 (2)).⁸⁹

In total - as summarized in the table below - 31 separate hearings were examined.⁹⁰ These included 15 related to the industrial policy debate, of which 6 were directly concerned with establishing a federal industrial policy. Others concerned related issues of state-level economic development strategies and policy regarding the defence-industrial base. A further 16 related to the competitiveness debate and issues such as science and technology policy, tax and corporate regulation and foreign economic policy. The table opposite give the titles of the hearings examined (in abbreviated form), organised in subcategories and with associated codes for referencing purposes. The paper further draws on a number of reports and staff-studies produced by the JEC based on the proceedings of these hearings.⁹¹

⁸⁸ For the role of LaFalce's Bill within the Democratic Party's strategizing on industrial policy see (Graham 1992, 75-81)

⁸⁹ HSES hearings are organised in Parts 1-6 relating to dates of hearings across 1983/4. Thus. HSES 1983(2) refers to hearings collated in Part 2. Page numbers run consecutively across hearing transcripts within each 'Part'.

⁹⁰ Full citations of all hearings I examined are given at the end of the paper and coded to make clear how in text referencing works. JEC committee hearings are listed in yearly date order for example. Where multiple hearings took place in the same year they are ordered 1, 1a, 1b and so on. In text references and quotations are cited thus (JEC1a, 23) to denote hearing 1a page 23 of official transcript. Hearings sometimes include multiple sessions held across a span of several days or weeks. Where it is relevant to the discussion I highlight the date of sessions *within* overall hearings. More generally, as transcripts of hearing proceedings are printed chronologically with page numbers of sessions following on from each other, it is not necessary to note the session.

⁹¹ These JEC annual reports are included in the references section and are referenced in the text using the code JEC-**R** followed by the year - for example JEC-R 1982. JEC Staff Studies are included in the references at the end of the paper and referenced JEC-S (a-d).

INDUSTRIAL POLICY DEBATE	
House Subcommittee on Economic Stabilization of the Committee on Banking Finance and Urban Affairs 1983/4: Industrial Policy (Parts 1-6)	(HSES1983) (HSES 1984)
Joint Economic Committee. 1984. Industrial Policy : The Retraining Needs of the Nation's Long-Term Structurally Unemployed Workers	(JEC 1984a)
FEDERAL	
Joint Economic Committee. 1981. Japanese and American Economic Policies and US Productivity	(JEC 1981e)
Joint Economic Committee. 1981. Japanese Productivity, Lessons for America	(JEC 1981f)
Joint Economic Committee. 1982. Industrial Policy (Parts 1-3)	(JEC 1982b)
Joint Economic Committee. 1982. Japanese Industrial and Labor Policy	(JEC 1982a)
Joint Economic Committee. 1983. Industrial Policy, Economic Growth and the Competitiveness of U.S.Industry	(JEC 1983f)
Joint Economic Committee. 1983. Political Economy and Constitutional Reform	(JEC 1983b)
STATE AND LOCAL ECONOMIC DEVELOPMENT STRATEGIES	
Joint Economic Committee. 1981. Local Economic Development Strategies	(JEC 1981a)
Joint Economic Committee. 1982. State and Local Economic Development Efforts	(JEC 1982)
GOVERNMENT POLICY AND THE DEFENCE-INDUSTRIAL BASE	
Joint Economic Committee. 1981. Restoring America's Defense Industrial Base	(JEC 1981)
Joint Economic Committee. 1981. Government Policy and the Defense Industrial Base	(JEC 1981b)
Joint Economic Committee. 1982. Economics of Defense Policy	(JEC 1982d)
Joint Economic Committee. 1983. The Machine Tool Industry and the Defense Industrial Base :	(JEC 1983e)
Joint Economic Committee. 1983. The Defense Program and the Economy	(JEC 1983a)
COMPETITIVENESS DEBATE	
SCIENCE AND TECHNOLOGY POLICY	
Joint Economic Committee. 1982. High Technology and Regional Development	(JEC 1982c)
TAX AND CORPORATE REGULATION	
Joint Economic Committee. 1983. Antitrust Policy and Joint Research and Development Ventures	(JEC 1983d)
Joint Economic Committee. 1983. The High Cost of Capital	(JEC 1983)
Joint Economic Committee. 1984. Japanese Tax Policy	(JEC 1984c)
Joint Economic Committee. 1984. Fairness and the Reagan Tax Cuts	(JEC 1984d)
Joint Economic Committee. 1985. Taxes : Supply-Side Theory Revisited	(JEC 1985d)
FOREIGN ECONOMIC POLICY	
Joint Economic Committee. 1981. International Economic Policy	(JEC 1981c)
Joint Economic Committee. 1981. U.S.-Japanese Economic Relations	(JEC 1981d)
Joint Economic Committee. 1982. The Japanese Financial System in Comparative Perspective.	(JEC 1982e)
Joint Economic Committee. 1983. Foreign Industrial Targeting Policies	(JEC 1983c)
Joint Economic Committee. 1984. The Foreign Trade Dilemma : Fact and Fiction	(JEC 1984)
Joint Economic Committee. 1984. How to Save the International Trading System	(JEC 1984b)
Joint Economic Committee. 1985. Impact on the U.S. Economy of Imbalanced and Unfair Trade Relations -the case of Japan	(JEC 1985a)
Joint Economic Committee. 1985. Impact of Unfair Foreign Trade Practices	(JEC 1985c)
Joint Economic Committee. 1985. United States Japanese Trade in Semiconductors	(JEC 1985b)
Joint Economic Committee. 1986. Cracking the Japanese Market	(JEC 1986)

The paper now proceeds in two parts. The first examines the industrial policy debate and why it failed. The second discusses the legacy of the industrial policy debate in the subsequent national competitiveness debate that contributed to the rise of a hidden American developmental state and an anti-developmental order in US foreign economic policy.

Part One: The Industrial Policy Debate

Malaise, the collapse of Keynesianism and the rise of the supply-side paradigm

The first tremors of the industrial policy debate could be felt in the closing years of the Carter administration when, along with much of the industrialized world, the United States was embroiled in the sharp economic dislocations which followed the 1970s oil crisis (Ferguson et al. 2011). Symptoms of economic malaise were everywhere, seen perhaps most clearly in the near collapse of Chrysler - one of the giants of the American auto-industry in 1979 (Stuart 1980). At the same time, the perception of greater robustness in foreign economies - in particular Japan, which continued to cement itself in industries such as automobiles, pharmaceuticals, and electronics (Kunkel 2003) - generated a perceptible sense of alarm that America was ‘falling behind’ in the race for the future (Graham 1992).

The severity of the crisis was felt in different ways by different facets of the American state. At the level of state-government the severe dislocations brought on by deindustrialization were seen as creating problems beyond the capacity of state governments to solve.⁹² A cry of alarm soon went up from many state-governments - organised through the *Council of State Planning Agencies* (CSPA) - that more needed to be done to support their local economic strategies.⁹³ One leading

⁹² Much of this crisis for state-governments related to urban areas - with many cities (most famously New York, falling into financial difficulty (see particularly JEC 1981a). Accompanying this was the fiscal pressure caused by reduction of direct federal grants to the states accompanying the ‘new federalism’ (for an overview of the new federalism see Conlan 1998). More broadly the structural shift of economic activity towards the sunbelt was seen as posing a major challenge to the states in the industrial Midwest, as Congressman Brown remarked at a JEC hearing on local development strategies “there are those who say that the cities outside of the sun belt are finished” (JEC 1981a, 1).

⁹³ Much of the CSPA’s emphasis was on the need for federal support for infrastructure investment so as to modernise the American economy (Herbers 1981). For a good example of the intervention of state actors in the industrial policy debate see the June 21st HSES hearings 1983, (2).

voice here was Arkansas governor Bill Clinton, an old friend of Robert Reich who would go on to chair CSPA,⁹⁴ put the case especially forcefully:

There is general agreement among those who have studied closely the recent difficulties in the American economy that something more than a traditional recession has produced the present conditions. We are experiencing profound structural changes in our economy which bring with them enormous problems and opportunities...I believe it is the job of our national government to establish a framework within which we can maximize our opportunities and at least minimize our problems...I believe state and local governments are ready to provide increased support in education, job training, and infrastructure development, but if we are to have a truly comprehensive industrial policy, federal assistance is essential (HSES 1983 (2): 273-4).

Similarly, at the federal level, bureaucratic agencies within the Department of Commerce were increasingly straining under the pressure of providing support and bailouts for struggling US corporations. Officials in such agencies frequently talked of the need for a more coherent and coordinated approach to such industrial problems, with one especially prominent advocate being Frank Weil, former Assistant Secretary of Commerce for Industry and Trade. Weil's experience in this role caused him to become frustrated with the complex, often contradictory way that policies such as anti-trust, research and development support, government loans and bailouts, public procurement and trade policy interacted. He observed:

This vast array of stimuli, which on the whole is contradictory, ad hoc and reactive confronts and confuses private decision makers. Today the strands of micro-policies we create are taken in essentially discrete steps through the unfolding of our competing political system. Neither our existing legislative nor executive branches have been able in the main to take a holistic view of the economy. This is the purpose of creating a new process. It could coordinate the formulation of the numerous micro-policies so that, taken together they become an industrial policy which is coherent, long-range anticipatory and integrated (HSES 1983, (4) 391-2).

Meanwhile, within the national security state there were increasing concerns that the nation's defense-industrial base itself was under threat. In particular, it was argued that the declining

⁹⁴ For an interesting account of how the industrial policy debates - and the broader of politics of governing states in the face of fiscal crisis and structural dislocation - helped forge the philosophy of Clinton and 'New Democrats' Cebul, 2019.

profitability of basic industries such as steel, the bankruptcy of many small suppliers, and the decreasing share of overall sales in technology firms represented by defense procurement was making the military dangerously dependent on a small set of increasingly uncooperative large corporations.⁹⁵ These issues were given exposure by Jacques Gansler, a former Pentagon official whose influential book *The Defense Industry*, published in 1980, argued that defense procurement was being seriously undermined by the stranglehold of large companies and by insufficient investment in basic industries. 'If the US defense industry continues to rely mainly on the play of free market forces' Gansler warned, 'it will no longer be able to see the country safely through national emergencies' (1980, 63).

In this manner, three of the key components within the American state that had historically played a central role in managing the structural composition and strategic direction of the economy were sounding the alarm by the early 1980s. It was widely argued that, given the problems afflicting the United States related to the supply side of the economy - above all a major slowdown in productivity - the traditional remedy of Keynesian demand-side management was useless (Graham 1992, 15-18). This shifting zeitgeist was cemented for many by the *1980 Annual Report of the Joint Economic Committee*, spearheaded by Lloyd Bentsen and expressing a consensus spanning from Republicans to moderate Democrats.

[This] report signals the start of a new era of economic thinking. The past has been dominated by economists who focused almost exclusively on the demand side of the economy. [This] report says that steady economic growth, created by productivity gains...can reduce inflation significantly during the 1980's without increasing unemployment. To achieve this goal, the Committee recommends a comprehensive set of policies designed to enhance the productive side, the supply side of the economy (JEC-R 1980, 1).

⁹⁵ For such discussion see JEC 1981; JEC 1981b; JEC 1982d and the October 4th HSES hearings, 1983. These hearings are full of recognition that - in the words of Defence Undersecretary Fred Ickes - 'because the greatest share of the [defence-industrial base] is in the private sector, we must look to profit and business stability as the main incentives for a viable base' but that 'the cyclical nature of the defence business and...the decreasing defence procurement have made it unattractive to many suppliers' (JEC 1982d, 4). This is recognised as making the US military dangerously reliant on a small number of corporations who therefore have major power in procurement negotiations, a subject of considerable frustration in the defence community (in this regard see particularly Admiral Rickover's warnings about the excessive concentration of corporate power (JEC 1982d, 23). Underpinning all of this was the context of the Reagan military build-up and the desire to get ballooning defence costs under control by efficiency savings. There was, in particular, a concern that without structural reforms to procurement and supply chain management the greater defence budgets would simply result in 'bottlenecks' leading to inflation without improving defence readiness (JEC 1983a).

Circumstances such as these have long been recognized by political scientists as those in which dominant policy paradigms tend to lose power - creating an ideational void out of which new regimes emerge (Hall 1993). Such was the case in the late 1970s when, in the wake of perceived failure by the Keynesian ideational order, policy entrepreneurs on both left and right began to search for new solutions and a new paradigm to order American economic policy.

The first such new paradigm to emerge was the plethora of ideas that became grouped under the rubric 'supply-side' policies. The core ideas of supply-side economics are well known, and I will only briefly touch on them here. They became, of course, closely associated with the agenda of Reagan and the Republican Party. Yet arguably they also encompassed the politics of right-leaning and moderate Democrats. Bartlett, for instance, has argued that the modest support for supply side economics expressed by Democrats, such as Bentsen, played an important role in fostering a broad consensus on issues like financial services reform (2015). Broadly conceived this emerging supply-side paradigm centred on the following ideas. Firstly, that the American economy faced a crisis in the form of declining productivity and that this crisis could only be solved by focusing on the supply-side of the economy, not on Keynesian-style demand side management. Secondly, the key to improving productivity was to unleash the power of American entrepreneurship by reducing restrictive government intervention. Much was made of the power of marginal tax rate cuts to turbo-charge the US economy whilst also potentially increasing government revenues (Domitrovic 2012). Supply-side ideas were dismissed as a fad by many Keynesians, and more respectable conservatives would distance themselves from extravagant claims about the miraculous, self-financing nature of tax-cuts. Yet, in retrospect, supply-side economics represented the vanguard of an emerging neoliberal paradigm that would rise to dominance in the 1980s and would indeed bring about major cuts in tax-rates and substantial deregulation of the US economy (Blyth 2002; Widmaier 2016a).

After Reagan's landslide election victory in 1980 demonstrated the effectiveness of supply-side ideas for political mobilization on the right, liberal politicians and policy-entrepreneurs sought, with increasing urgency, an alternative set of ideas that might plausibly serve as a solution to the economic problems of the 1980s. The leading candidate that emerged from this search would be industrial policy.

The proposed industrial policy paradigm

The term ‘industrial policy’ first reached American attention from observations of other states. Primarily it was Japan’s economic successes that became a much discussed and much envied theme in Washington policy discussions (Vogel 1979; Johnson 1982).⁹⁶ It was increasingly asserted that active industrial policy, coordinated through the powerful Ministry of International Trade and Industry (MITI) had been central to Japan’s success. Soon the idea emerged that a similar industrial policy could be beneficial in the US. The JEC, for instance, went so far as to organise a delegation to Japan - the first foreign delegation in the Committee’s history - to investigate Japanese industrial policy. This was followed by a series of hearings which considered, as the chairman, Senator Jensen put it, ‘what kind of Japanese economic measures with respect to taxation, capital formation, government regulation, business, government, labor relations and research and innovation can be intelligently and sensitively applied in the United States’ (JEC 1981e, 49). This idea was also being seriously explored in the final years of the Carter administration with the White House commissioning a major study into foreign industrial policies and their potential application in the United States.⁹⁷ Although too late to feature much in the 1980 election, after Carter’s defeat debates surrounding industrial policy burst into the open (Graham 1992, 52).

The industrial policy movement was spearheaded by a set of charismatic public intellectuals, many of them clustered around two academic communities. First were a set of academics and political consultants based on the East Coast, including Robert Reich, Ira Magaziner and Lester Thurow, who in the future would go on to establish the *Institute for Economic Policy*. Reich and Magaziner’s ‘*Minding America’s Business*’ (1982), as well as Thurow’s

⁹⁶ For discussion on this theme see in particular JEC 1981e, JEC 1981f, and JEC 1982a.

⁹⁷ The late Carter administration experiments in industrial policy grew from several sources. Firstly, the oil crisis of the 1970s led to a de-facto industrial policy emerging in the energy sector, with the Department of Energy assuming a much more direct role in supervising and supporting new technologies for energy conservation and industrial upgrading. This led to some suggestions that similar measures could be applied in other sectors of the economy (Ikenberry 1988). Also, the experience of the Chrysler bailout, and the widespread sense that the government response to this episode had been ad hoc, led to the idea of a ‘reindustrialisation board’ which would allow for a more systematic response in the case of future bailouts. The general idea was that this board would offer a bridging-loan to companies in financial difficulties, but in return would agree a recovery plan with labour and management involving industrial upgrading and organisational reforms (Stuart 1980). These various strands began to cohere into the notion of a ‘comprehensive reindustrialisation strategy’ towards the end of the Carter administration, but the idea was too far in its infancy to play a major role in Carter’s re-election campaign. For a discussion of the Carter administration’s approach to industrial policy, see Graham (1992, 22–43) and for an account of its relationship to wider administration economic policy see Biven (2002).

The Zero Sum Society (1980) were particularly influential in setting the industrial policy debate in motion. (Graham 1992). While Reich and Magaziner's work focussed on declining American productivity and argued that this reflected a lack of strategic vision within the corporate management class, Thurow drove home the point that, in an era of lower growth rates, the American state would increasingly have to rely on the reallocation of scarce capital to achieve social and economic goals. Alongside this East Coast grouping another centre of industrial policy advocacy was a group of West Coast academics, mostly based at the University of Berkley, California, who had close ties to Silicon Valley and who would establish the *Berkley Roundtable on the International Economy* (BRIE). Particularly important here were Laura Tyson and John Zysman whose *American Industry and International Competition* (1983) was an important statement of the BRIE perspective.

Although the advocates for industrial policy were certainly diverse in their views, a universal theme was that the US faced a nearly disastrous loss of international competitiveness. As Thurrow described it:

Industrial policies start from the observation that American industry is being beaten up in international competition and that American productivity growth has died. If it were not for the stench of economic failure no one would be talking about industrial policy (1984, 4).

This core problem-frame concerning a 'crisis of competitiveness' was closely related to the similar claim, associated particularly with Bluestone and Harrison (1982a), that the United States was 'deindustrialising' and losing critical manufacturing industries. These industries were central to high productivity growth and provided the crucial economic and social basis for many working-class communities. Curiously, much of the rhetoric of industrial policy advocates mirrored that of the supply-siders. They both emphasised that this loss of competitiveness was a problem on the supply-side of the economy and thus could not be solved through Keynesian demand-side management. Both also argued that insufficient capital was being made available for critical investments in the industrial structure, although industrial policy supporters feared the supply-side solution of increasing the savings rate could unacceptably harm the living standards of poorer Americans. Instead, the core policy-goal

advanced by the industrial policy activists was that the government should more effectively direct the supply of capital, to promote US international competitiveness.⁹⁸

Underlying, this problem frame and policy goal were the following key assumptions about the nature of the global economy.

1. Strategic Trade Theory

In making their argument, industrial policy advocates drew on emerging research within international economics concerning ‘strategic trade theory’. This referred to the assumption that countries could enhance their wealth, relative to other countries, by helping their national firms gain monopoly in imperfectly competitive international markets (Krugman 1979). Strategic trade theory had initially been developed by economists to solve certain academic problems in understanding global trading patterns and most of its pioneers were extremely cautious about drawing policy implications from it (Krugman 1994, 14). Industrial policy advocates, however, seized on it as a potent explanation for America’s crisis of competitiveness⁹⁹. Prosperity and relative national economic power in the future, it was argued, would depend on the US making correct and sufficient investments in critical international industries.

2. Capital Market Imperfections

To such notions of strategic trade, industrial policy advocates also attached a strong belief in capital market imperfections. Like the supply-siders, industrial policy advocates saw the need to increase the capital available to American firms in key industries as critical to restoring international competitiveness.¹⁰⁰ Unlike the supply-siders,¹⁰¹ whose emphasis was

⁹⁸ See particularly Reich, Thurow and Magaziner’s testimony in the *Subcommittee on Economic Stabilization of the Committee on Banking Finance and Urban Affairs: Industrial Policy* (HSES 1984 (4)).

⁹⁹ The idea of strategic trade became a particular focus of the West Coast industrial policy community. See in particular Tyson and Zysman, (1983) and the hearings held at Berkley by the house banking committees (HSES, 1983 (3)).

¹⁰⁰ For discussion on this, see particularly the JEC and Subcommittee on Economic Stabilization of the Committee on Banking Finance and Urban Affairs hearings dedicated to Capital Market problems (JEC 1983; HSES, 1984 (5)).

¹⁰¹ The positions different industrial policy advocates took on the issue of aggregate supply of capital versus better allocation of capital did vary somewhat. Some argued that while supply-side measures to boost savings were essential, they needed to be complemented with an industrial policy in order to work most effectively. See for instance Tyson’s testimony on industrial policy before the Subcommittee on Economic Stabilization of the Committee on Banking Finance and Urban Affairs (HSES 1983(3), 502). Others disputed whether measures to increase capital formation were necessary, with Reich, for instance, claiming that ‘Although supply siders place great faith in capital formation as the primary source of industrial productivity, the relationship between investment

overwhelmingly on growing the capital stock by increasing the savings rate, industrial policy advocates maintained that there were problems *within* capital markets that prevented the allocation of capital to where it was most needed. Specifically, industrial policy advocates argued that there were ‘capital market gaps’ which prevented the private sector from allocating capital effectively.¹⁰² They claimed that there was, in particular, a lack of ‘patient capital’ to fund long-term research and product-development or to promote long-term restructuring and industrial upgrading in mature industries.¹⁰³ They also felt private finance was overly cautious in funding high-risk but high-payoff technologies which industrial policy supporters felt could have a significant impact on US productivity. As a result, industrial policy advocates argued it was necessary to pursue a coordinated government policy aimed at correcting capital market imperfections and directing resources towards high-value industries that could deliver large productivity improvements.

3. Developmental state-building

Acknowledging that such an industrial policy could easily become the tool of special interest lobbying, advocates placed considerable emphasis on the need to build strong and autonomous institutions capable of resisting such pressures (Reich 1982). In doing so, they drew heavily on ideas about state-building within political science which suggested that it was possible to build such institutions. By the late 1970s and early 1980s, several scholars¹⁰⁴ argued that Japan, with its Ministry of International Trade and Industry, had successfully been able to create institutions sufficiently embedded within the business ecosystem and protected from business lobbying power, that they could direct an effective industrial policy. The idea that successful developmental state-building was possible was seized on by advocates to suggest the potential efficacy of such state-building within the United States.

and output is really not so clear’ (JEC 1982b, 3). What was generally agreed was that supply-side measures to promote greater capital formation, such as tax-cuts and reduced government spending, would be likely to harm the most vulnerable in society and should consequently be relied on as little as possible compared to industrial policy.

¹⁰² The importance of this theme is well illustrated by the sessions on capital market gaps held during the Subcommittee on Economic Stabilization hearing on Industrial Policy (HSES 1983(4)) and especially by the testimony of Felix Rohatyn during these sessions.

¹⁰³ Rohatyn emphasised this point arguing that in past government funded actions such as the Chrysler bailout, the various parties ‘all made significant concessions’ in terms of restructuring that would not have been possible without the leverage of government money. The ultimate justification for an industrial policy to supplement capital markets was therefore that ‘capital markets do not negotiate concessions between the various parties’ (HSES, 1983 (4), 86

¹⁰⁴ Most notably Chalmers Johnson in his influential *MITI and the Japanese economic miracle* (1982).

These core ideas, concerning capital market gaps; the potential for developmental state-building; and strategic trade theory, provided the core assumptions underlying the industrial policy advocates goal of government direction of capital to improve US competitiveness. To put their ideas into practice, industrial policy advocates supported the creation of a variety of policy instruments, although there was considerable disagreement on some of these points. Some advocates envisaged a national development bank partially modelled on the *Reconstruction Finance Corporation* (RFC). Others imagined a *National Development Council*, or a series of regional development councils modelled on the New Deal's *Tennessee Valley Authority*, which would in turn be coordinated by a national institution in a manner similar to the Federal Reserve System. Regardless of the instruments used, the function of this system would be to channel capital towards high value industries and sectors.

In seeking to advance developmentalism, advocates appealed to its long tradition within American history. Since the days of Alexander Hamilton, various American political actors and institutions had advocated sector-specific economic development programs that largely anticipated the proposals of industrial policy advocates (Lind 2012; Cohen and DeLong 2016). Alongside high tariffs on manufacturing, specific policy orders can be identified within American political development, in which developmentalist assumptions were embedded. For instance, the tradition of state-led mercantilism established during the Early Republic (Hartz 1948; Dobbin 1994); the active industrial policy making associated with federal agencies, especially the Department of Commerce during the Progressive, New Era, and New Deal period (Hawley 1974; Barber 1985); and the system of targeted industry promotion associated with the activities of the Cold War national security state (Weiss 2014). All these policy orders, although associated with particular moments in American history, had left a considerable institutional legacy that was still present in the 1980s.

Industrial policy advocates – in some ways – can be viewed as seeking to combine the remnants of these different orders into a cohesive developmental state. Indeed, advocates often cited the activities of these orders as proof that industrial policy was not alien to the American system of government.¹⁰⁵ Frank Wiel, for instance, remarked; ‘to say we can’t create new institutions to

¹⁰⁵ In particular, the long tradition of US involvement in agriculture was pointed to as a great success. Stephen Cohen described it as ‘arguably our most successful industrial policy’, which ‘brought a host of advanced technologies into use by a fairly unsophisticated enterprise’. Continuing this theme, Cohen argued that ‘what we did

manage emerging industrial problems is to deny our history. We have been doing it for 200 years' (JEC 1983f (3) 67).

Nonetheless, they were often quite critical about past American experiments in industrial policy, pointing to a failure of coordination between different parts of the American state. Advocates were particularly critical of the lack of coordination between the military and civilian agencies over economic policy, and more generally expressed a desire to shift from what they saw as a 'defence centred' industrial policy to one which emphasised civilian considerations about economic competitiveness. Reich, for instance, argued that 'although military-related programs have from time to time spawned highly competitive industries the benefits to the civilian economy have been inadvertent and will not necessarily continue' (1982, 9). Overall, he maintained, US industrial policy had been characterised by 'a hodgepodge of subsidies, loan guarantees, tax expenditures and procurement contracts, some of which may benefit growth industries but many of which are simply wasted' (1982, 56) By creating new, and high-profile national institutions to develop a comprehensive industrial strategy, industrial policy advocates believed it would be possible to harness the various reservoirs of experience in developmentalism within the American state in order to enhance economic policymaking.

The Response to Industrial Policy: Disdain from the Keynesians, ambivalence from the supply-siders

The Congressional hearings on industrial policy provide a broad overview of the patterns of support and opposition to this proposed industrial policy order. The idea was supported by much of the labor movement with the American Federation of Labor (AFL) offering an enthusiastic endorsement and similar support came from many elements within US manufacturing.¹⁰⁶ The idea was also known to have support within various parts of the American state, particularly the Departments of Commerce and Labor, and among administrations at the state level.¹⁰⁷ Opposition to industrial policy was primarily due to

on the farm we should do in the factory...we should have a great national effort in that direction. Certainly it goes along with our traditions' (HSES 1983(3), 530).

¹⁰⁶ Strong approval for industrial policy was voiced by the steel, automotive, and aviation industry, but also considerable interest was expressed from agriculture and from high tech industries such as semiconductors and computers, The HSES hearings had sessions dedicated to each of these sectors (HSES, 1983 (2)).

¹⁰⁷ As a former Assistant Secretary of Commerce for Industry and Trade, Frank Weil particularly embodied this perspective (JEC 1983c, 42; HSES 1984, 192).

financial interests and concern about the prospects of government intrusion within US capital markets (Graham 1992, 72–77).

In terms of the criticisms levied against industrial policy in the intellectual sphere, it is noteworthy that the bulk of the most intense opposition came not from the supply-siders on the right, but from centre-left figures who remained committed to the older Keynesian paradigm. Charles Shultz of the *Brookings Institute*, who had served on the *Council for Economic Advisors* under Carter, was especially influential in this regard (Graham, 1992), as were Robert Lawrence and Paul Krugman.¹⁰⁸ Krugman retrospectively characterised this strong reaction as driven by ‘intellectual outrage’ that what the Keynesians saw as crude and simplistic policy prescriptions were being awarded such attention.¹⁰⁹

While the industrial policy movement was strongly opposed by Keynesians, it received a somewhat cordial reaction from the supply-siders. This reflected the fact that, in their mutual rejection of Keynesianism and concern with the inadequate supply of capital, the two ideational regimes clearly had a certain amount in common. Reich recognized this, noting that both industrial policy and supply-side economics ‘focus squarely on stimulating investment rather than demand’ (Reich 1982a 2). Supply-sider Paul Craig Roberts meanwhile noted that ‘most of the advocates of an industrial policy are pushing for supply-side policies, only they want to

¹⁰⁸ For some on the left, the attacks on industrial policy by figures such as Shultz and Krugman indicated the extent to which ‘neoliberal’ ideas had already penetrated Keynesian thinking, through the rise of ‘new Keynesianism’ and the decline of ‘post-Keynesianism’, thus turning Keynesian economics from a radical creed with an emphasis on market uncertainty that underwrote an expansive critique of American capitalism, to a cautious one unable to countenance much government intervention outside the realm of monetary policy

¹⁰⁹ There is a significant contrast between derisive views towards industrial policy expressed on the left, and the opposing lack of derision towards supply-side ideas by economists on the right. This contrast is significant because it helps explain the larger influence of supply side economics on the right. Much of ‘supply-side’ policy could be characterised as a simplistic rendering of monetarist and neoclassical ideas. Yet Milton Friedman, for instance, did not dedicate the kind of energy to proving that Arthur Laffer was a fraud as Paul Krugman did in connection to Robert Reich. Moreover, despite establishment intellectuals on the right dismissing supply-side ideas, it seemed to make little difference to their overall appeal of supply-side policies. George Bush’s description, influenced by his economic advisors, of supply-side policies as ‘voodoo economics’, for instance, did not stop Republican primary voters enthusiastically endorsing such policies by supporting Ronald Reagan. In this way, an important part of the reason supply-side policies were more influential on the right than industrial policy ultimately proved on the left, may lie in the different position of formal academic elites within the Democratic and Republican policy coalitions respectively. Whereas by the 1980s a certain ‘anti-intellectualism’ has already to some extent come to characterise Republican politics, Democratic administrations had long cultivated deep links with academic economists. This was seen for instance in the ‘brain trusts’ of the Roosevelt administration or the Kennedy administration’s solicitation of academic advice. It could well be argued therefore, that the greater status of the academy within liberal circles meant denunciations of industrial policy carried greater weight than similar denunciations of supply-side ideas did on the right.

implement them through the government'. He considered the left's embrace of industrial policy to be a positive development, 'as it shows that supply-side concerns have set the agenda for the 1980s' (JEC 1983, 32). In this way, while supporters of the declining Keynesian policy paradigm focused their full fire at industrial policy, supply-siders were much more circumscribed in their critique; opposing industrial policy proposals while implicitly accepting some of the concerns and ideas from which they had emerged.

Why the Industrial Policy Movement Failed

Over the course of the industrial policy debate, advocates of industrial policy failed to establish their ideas as an effective alternative to the emerging supply-side regime. In analysing why this proposed industrial policy regime failed as a long-term challenger to supply-side economics, scholars have pointed to a range of important factors. These include: the greater degree of mobilization on the right (Graham 1992) the more developed infrastructure of think-tanks and advocacy groups pushing for supply-side ideas (Campbell 2004) and the strong criticism of industrial policy levied by Keynesian economists (Faux 2009). Moreover, issues of framing have been emphasised as critical. In particular, the complexity of industrial policy and the relative ease with which it could be dismissed as 'big government' arguably made it less attractive to policymakers and voters in contrast to the relatively intuitive ideas of supply-side economics. This interpretation, strongly argued by Campbell (1998), squares with accounts of disillusionment with industrial policy by some prominent policymakers. Walter Mondale, for instance, when recounting his decision to back away from industrial policy and not campaign on the issue in 1984, explained 'the more I read and thought about it, the more I realised that guys like Reich and Magaziner were just pushing for more big government' (quoted in Graham, 1994, 167).

While not denying the significance of any of the above factors, I would argue that the proceedings of JEC and HSES hearings evidence other dynamics that which played a critical role in industrial policy's failure. The following three factors were of considerable importance: disunity within the industrial policy coalition, the role of the venture capital industry, and scepticism regarding the appropriateness of industrial policy to the US political system.

Disunity within the industrial policy coalition

This first issue relates to problems of internal conflict and disagreement. Much has been made, for instance in Graham's account of the industrial policy debate, of the fact that while supply-side ideas were supported by a unified political right, industrial policy did not have the unified support of the left (Graham 1992; Murdaco 2016, 11). Even among self-professed advocates of industrial policy, disagreement was rife with incessant debates on issues such as the value of tripartite planning,¹¹⁰ the need for an industrial development bank,¹¹¹ or whether to prioritize 'sunrise' over 'sunset' industries.¹¹² These differences were plainly laid out in both the JEC and HSES hearings (particularly so in the latter case as this committee had the unenviable task of attempting to produce an Industrial Policy Bill and reconciling the myriad of different perspectives). The impression such proceedings give is of a policy coalition fraught, brittle, and prone to disintegrating whenever the details of policy were discussed.

Such disagreements over the goals of industrial policy were accompanied by competing views of where its locus should be. As mentioned earlier, industrial policy drew a certain degree of institutional support from state-governments; the Department of Commerce; and elements of the national security state, all of which had historic experience in putting industrial policy into practice. Yet, because of the different orientation of these parts of the American state, each institution strongly resisted measures that would limit their control over industrial policy. Advocates of industrial policy at the state level strongly opposed having to cohere to a national

¹¹⁰ Some industrial policy advocates saw 'tripartite planning' - coordinating agreements involving business, labor and government representatives in the manner practiced in Europe - as a necessary component of industrial policy. Such proposals however were attacked from both the left and right flanks of the industrial policy coalition as too 'deferential' to labor or capital, respectively.

¹¹¹ Some advocates saw a government run investment bank, in the tradition of the New Deal era RFC, as central to making industrial policy work. For others, such a bank was both unnecessary and promoted the misconceived notion that industrial policy should be only about government planning rather than public-private cooperation.

¹¹² Much of the advocacy of industrial policy, particularly on the East Coast, centred on the need to speed the demise of declining 'sunset industries' such as steel and textiles, and hasten the movement of labour and capital into emerging 'sunrise' industries in high technology. Reich, for instance, was strongly associated with the attitude that an effective industrial policy would have to be quite ruthless in forcing industries to die, businesses to relocate, and workers to retrain or even move to growth areas. Such attitudes were sharply criticised by the more leftist of industrial policy advocates such as Bluestone and Harrison who saw such a strategy as likely to exacerbate the problems of industrial dislocation. They were also opposed by much of the West Coast industrial policy movement centred around BRIE with Stephen Cohen joking that the later sunset in California meant 'the sunrise-sunset distinction which seems to occupy such an important space in the east-coast debate on industrial policy, makes no sense to us out here (HSES, 1983 (3), 529'. Advocates at BRIE pointed out that most of the opportunities for productivity gain involved applying new technological advances to traditional industries such as introducing new machinery in the textiles sector. As such, a rigid distinction between high potential and low potential industries often made little sense. Advocates at B.R.I.E therefore argued that an effective industrial policy would instead focus on supporting 'linkages' that would allow the transfer of technology and ideas across sectors.

industrial policy produced by the Department of Commerce that they saw as limiting their freedom of action.¹¹³

A good example of this view emerges from a report by the *Urban Institute on Industrial Policy*. While strongly supportive of industrial policy in principle, the report warned that ‘an activist federal industrial policy should be discouraged’ (JEC 198 (2) 109). The report suggested that a federal industrial policy would be insensitive to the circumstances facing individual states and would be overly influenced by large corporations to the detriment of small, state-level enterprises. Instead, ‘as an alternative to federally directed industrial policy’, the report recommended that ‘careful consideration be given to the potential role of a reoriented state industrial development program in a ‘federalist’ industrial policy’ (JEC 1983f (2) 115). This reorientation would have involved increased federal funding to state governments in the form of block grants. State governments would then have been able to use such grants to fund retraining schemes and support the growth of small and medium sized firms, whose local presence meant state governments were in a better position to provide support. The report insisted that:

A reasonable industrial policy... should not involve a highly centralised federal authority that allocates capital to firms it deems worthy of support. Instead, compelling economic and political considerations suggest that states should administer such efforts (JEC 1983f (2) 175).

Such ideas were vigorously contested by industrial policy supporters associated with the federal government. They argued that a decentralised, state-led industrial policy would lead to ‘diversionary’ programs with states trying to ‘poach’ jobs and industries from their neighbours, rather than genuinely investing to improve national wealth.¹¹⁴ While, the Urban Institute was advancing its states led proposal, Frank Weiss from the Department of Commerce was instead seeking support for a proposed ‘*Federal Industrial Cooperation Board*’ - composed of 10 Congressionally appointed experts and modelled on the Federal Reserve - which would have the unilateral power to review tax, antitrust and trade remedy policy - including policy at the state level. While this board might be designed to include some regional representation, Weiss

¹¹³ This is seen particularly in the JEC *Hearings on State and Local Economic Development Strategies* (JEC 1981a, JEC 1982).

¹¹⁴ For examples of this see particularly the testimony of Lester Thurow (HSES, 1983(1) 168) and Felix Rohatyn (HBS, 1983, part 4, 82).

insisted that the design of policy ‘must be nationally coherent: one institution must be able to speak with one voice’(HSES 1983(4) 395). Clearly there was a gulf between the kind of industrial policy envisaged by state-level and federal advocates.

Similar divisions about the purpose of industrial policy are evident in many of the hearings held by the JEC on the defence-industrial base. In these hearings Defense Department officials frequently concur with the critique of American capitalism offered by the industrial policy movement; the decline of basic industries, the short-termism of corporate managers, the absence of long-term planning and the lack of response to foreign industrial policies.¹¹⁵ Yet, at the same time, they express some scepticism about many of the solutions industrial policy advocates proposed, failing to throw their considerable weight behind the movement. In testimony by Jacques Gansler, and Dr Ellen Frost (former *Deputy Assistant Secretary of Defense for International Economic and Technological Affairs*), the furthest they were willing to go was to say that new roles needed to be created in the Pentagon, which would be concerned with civilian issues. They explicitly rejected the idea of greater Commerce-Pentagon cooperation, with Ellen Frost commenting; ‘I would not recommend a cumbersome network of interagency clearances...nor am I proposing brand new organizational solutions for what I think is really a problem of policy’ (HSES 1983 (5) 23).

Such reticence probably in part reflected how many industrial policy advocates, firmly on the left and sceptical of the military-industrial complex, went out of their way to criticise the national security state, portraying it as part of the problem rather than part of the solution to the issue of industrial decline. Prominent advocates such as Bluestone¹¹⁶ and Reich portrayed the defense-establishment as pursuing a narrow and ‘unthinking’ industrial policy based on an overly restrictive view of national security and power. Reich for instance argued that the treatment of US industry was characterised by ‘extraordinary disparities, primarily because we have developed our policies almost myopically, almost exclusively through defence’ (HSES, 1983(6) 214). In retrospect such accusations often seem a disservice to the considerable and nuanced strategic reflection that was occurring within the national security state, and they likely won the industrial policy movement few admirers at the Pentagon. In this way the industrial

¹¹⁵ For discussion of such issues see particularly HSES 1983 (5); JEC 1981 and JEC 1981b.

¹¹⁶ See for instance Bluestone’s testimony to HSES on May 18th 1982 which focused on the distortions introduced to the American economy by a defence-heavy industrial policy.

policy movement's rhetoric may have alienated a potentially valuable ally within the American state.

Perhaps more fundamentally though, it is clear from discussion at the hearings that the US defence establishment would resist any kind of national-industrial policy programme which significantly reduced the autonomy of defence agencies in managing their own relationship with suppliers. Time and again, officials emphasised the unique difficulties of defence-economic issues and the lack of appreciation for this by civilian agencies. In this context the idea that the health of basic industries such as shipbuilding or steel could be left in the hands of a civilian industrial policy run out of the Department of Commerce was a non-starter.¹¹⁷

Continued disagreement among industrial policy advocates had important implications and fed into the broader problems of 'framing'. It became a frequent complaint and accusation within the JEC hearings that industrial policy was 'a moving target' with no clear consensus on what it meant or what it would involve. In summing up the JEC hearings on industrial policy for example, Congressman Lungren commented, 'hundreds of witnesses have appeared in Congressional panels in the last year, yet it seems ironic that there is more doubt about what 'industrial policy' means now than when the hearings commenced' (JEC-R, 1984, vii). Critics seized upon this vagueness and argued that, in practice, industrial policy would degenerate into handouts to politically influential, but economically inefficient industries. In sum, the overall lack of agreement among industrial policy advocates and the resulting lack of clarity in their proposals, contributed significantly to the defeat of the industrial policy paradigm.

The Role of the Venture Capital Industry

When reviewing the JEC hearings on industrial policy, another clear issue is the role ideas about the venture capital industry played in the debate.¹¹⁸ The modern US venture capital industry had begun to develop in the late 1940s and early 1950s, largely due to the support of the US

¹¹⁷ It is also worth noting that underpinning Commerce-Defense Department coordination issues were specific disagreements about priorities in foreign economic policy. As Robert Noyce remarked, a basic tension was that Defense wanted to see export controls while Commerce wanted to see improvements in high technology exports (JEC, 1983f (1) 325).

¹¹⁸ This issue features in most discussions of industrial policy, but is particularly set out in JEC 1983f (2).

Government (Weiss 2014; Nicholas 2019).¹¹⁹ By the early 1980s, it was poised to enjoy a major expansion, having successfully lobbied for key changes in financial regulation and capital gains tax during the 1980s.¹²⁰ Venture capitalists, therefore, had a great deal to lose from a government industrial policy, which could potentially prove an unwanted competitor in providing funding for high-growth start-ups. Predictably, most venture capitalists strongly opposed industrial policy and lobbied against it in Congress. A survey of venture capitalists conducted for the JEC showed an overwhelming 97% majority opposed industrial policy (JEC-S 1984d). On the other hand, many of the issues being raised by industrial policy advocates - in particular the existence of capital market gaps badly served by traditional financial institutions - were also themes that the venture capital industry had sought to push for when lobbying for various policy reforms. Venture capitalists therefore were ambivalent towards industrial policy. They agreed with the industrial policy advocates that there were certain capital market ‘gaps’ which traditional finance was not addressing, but argued that the venture capital industry provided the best means to address these issues.¹²¹

The existence of the US venture capital industry, and its presence within the industrial policy debate, had important implications. It allowed supply-siders to argue that capital market gaps would best be addressed by removing regulatory and tax barriers facing the venture capital industry. Repeatedly, the point was made - here by Craig Roberts – that;

Any [industrial policy] bureaucracy would have far less incentive and ability to pick winners than venture capitalists (JEC 1983, 52).

¹¹⁹ The importance of the 1958 *Small Business Investment Act* in this regard has been widely acknowledged (Nicholas 2019, 53-56). Inspired by the example of the American Research and Development Corporation, (the forerunner of the modern venture firm), this Act created the legal vehicle of a ‘Small Business Investment Corporation’ (SBIC) a private venture firm which was licensed by the Small Business Administration and able to borrow from the government at favourable rates. The SBIC program is widely regarded as spurring on the development of an infrastructure (in terms of specialised law firms and data providers, as well as a population of experienced venture capitalists) that enabled the growth of the venture capital industry (Lerner 1999). Moreover at the time of the industrial policy debate around a third of all venture funds were still SBICs (Nicholas 2019, 120)

¹²⁰ Especially important had been the relaxation of the so-called ‘prudent man’ rule that had previously made it legally difficult for large pools of savings such as pension funds to be invested in venture capital (Nicholas, 2019).

¹²¹ Many venture capitalists also spoke with authority on how the Japanese exploited capital market processes to the disadvantage of American firms. For instance, noted venture capitalist Regis McKenna emphasised that ‘Japanese firms have adopted a successful competitive strategy based on a crystal clear comprehension of the capital formation cycle. This strategy permitted them in certain markets to short-circuit the costly R&D phase, jump in rapidly at high volume in the production phase, and disrupt the capital formation cycle, thereby strangling innovative U.S companies by cutting off their capital supply’ (HSES 1983(3), 687).

John Albertine also remarked that;

If you are smart enough in this venture-capital system to come up with a potentially lucrative idea, you are probably smart enough to find sources of capital (JEC 1983, 84).

In making such arguments, venture capitalists were often able to leverage their expertise in order to explain the limitations any government industrial policy would suffer from.¹²² Moreover, drawing on the contemporary anxieties about Japanese competition, they emphasised the relative weakness of Japanese venture capital compared to the US. They implied that the American venture capital industry was a great asset for the US to draw on when confronting Japan. For instance, Thomas Kiley the Vice-President of Genentech, remarked in a Congressional hearing on industrial policy:

The venture capital mentality that exists in this country is totally absent from Japan, and I think we are greatly advantaged by that (HSES 1983(3), 677).

The venture capital industry therefore provided supply-siders with a ‘positive solution’ to concerns about capital market gaps which industrial policy advocates pointed to.¹²³ Recognising the challenge such arguments posed to their proposals, some industrial policy supporters endeavoured to take the sheen of the venture capital industry. Congressmen Charles Summer for instance remarked

Everybody agrees we have a terrific venture capital market in this country, at least compared to other countries. Are they still better at getting new ideas of the ground than we are? Are the Japanese the experts? If so, then maybe venture capital doesn’t mean as much as we think it does and there are other things that are more important (HSES, 1983 (4) 71)

¹²² The theme is prominent in virtually all the *JEC Hearings on Industrial Policy*, especially those held on June 24th, June 29th and June 30th 1983. Frequent reference is made to the special quality of venture capitalists as a class of people capable of supporting high-risk, high reward enterprises. A J Moyer, for instance, the CEO of a venture-capital financed start up commented ‘the world is dominated by people who are scared of the ‘new’. The venture capitalist is probably the single largest element not totally fearful of the new’ (HSES 1983(3), 546).

¹²³ One good example of this is the remark by Regis McKenna; ‘Venture capital today is probably the most efficient use of capital in this country. Think a minute, it took less than \$50 million to create Genentech, Apple, Tandem, Rolm...The product, the ideas, come out of universities, they come out of Bell labs, they come out of basic research entities. They move very rapidly through development by the venture capital community and then they move into production’ (JEC 1983c 182). It is easy to envisage the effectiveness of such arguments within a debate centred on how to make the most of a limited supply of capital.

Such notes of scepticism however were hard to hear over the overwhelming chorus of testimony from venture capitalists on the immense benefits of the venture capital industry and the great advantages it gave to the American economy. Don Gervitz, CEO of the leading venture capital firm the Foothill Group captured this spirit of optimism especially, claiming;

I think what is happening in our country right now...with this explosion of venture capital that is pouring into these high-technology companies, is probably the most optimistic thing that I can think of ever happening to this country. And I believe that if it continues...we're going to leave the Japanese so far behind, that 5 or 10 years from now the word protectionism will be an anachronism (HSES 1983(3), 584).

Such arguments provided a powerful rejoinder to those sceptical of industrial policy.

Institutional obstacles to industrial policy

A final, important dynamic of the industrial policy debate was the extent to which Japanese successes in industrial policy were felt to be applicable to the American political system. The 1980s was a time of considerable introspection for Americans regarding their political system. With the decade marking the 200th anniversary of the Constitutional Convention and with the once ironclad confidence in the US political system shaken by the dysfunction of the 1970s, a desire to 'take stock' of the imperfections of the US system was widely felt. It was in this spirit that, in 1983, the JEC held a set of hearings on '*Political Economy and the Constitution*' focused on the implications of the US political system for economic management. These hearings focused largely on the lack of certainty produced by presidential government and on the short-termism produced by short election cycles. There was a particular emphasis on how this process disempowered the executive compared to in many other democratic states, including Japan. In this context, the point was often made that these political features made an active industrial policy extremely difficult to manage effectively. As John Anderson, a former member of Congress speaking at the hearings, testified:

If we are to have an effective export policy, an effective job retraining policy - indeed an effective industrial policy - there has to be something in addition to what we have now in the way of central presidential control and direction over the execution of these policies. In addition there have to be mechanisms within government to provide for the long-term planning that is now sadly lacking (JEC, 1983b 51-2).

Although such concerns had little impact in terms of efforts for constitutional reform, they were increasingly employed as something of a ‘trump card’ within the industrial policy debate. Over the course of the debate, critics often emphasised that in the American political system, any industrial policy in practice was likely to degenerate into a politically motivated pork-barrel process.¹²⁴ The United States was felt by many involved in the debate to simply ‘lack the institutions’ needed for industrial policy to succeed. In particular, debate focused on its highly porous political system vulnerable to capture by special interests; its fractured and decentralised government - making consensus difficult to reach; its frequent elections making it hard to take unpopular, long-term decisions; and finally, its lack of a developed permanent bureaucracy making policy difficult to administer.¹²⁵ The point was made vigorously by Shultz, who argued;

It is simply not possible in the American political system to pick and choose among individual firms and regions in the substantive, efficiency driven way envisaged by advocates of industrial policy.
(JEC 1983, 9)

Elaborating on this point in another JEC hearing, Shultz spoke even more frankly;

We cannot do it. The American political system would not let us do it. I cannot conceive of an Industrial Policy Board sitting there saying, Youngstown die. Weirton stay open...What I think is more likely to happen is that you would get a back-scratching operation in which declining industries would vote for subsidies for potentially advancing industries in return for votes for protection for the losing industries.
(JEC 1983c, 34)

This point was repeated time and again by critics of industrial policy, often emphasising that while industrial policy might work in *theory* and may have been effective in less fragmented and less democratic societies - such as Japan - it was not workable within the American political system.¹²⁶ An influential piece in the *Harvard Business Review* 1983 for example, maintained

¹²⁴ This theme is particularly emphasised in the JEC *Hearings on Political Economy and Constitutional Reform* (JEC 1983b) but also appears widely throughout the JEC hearings.

¹²⁵ For a cogent distillation of such arguments see especially Badaracco and Yoffie (1983).

¹²⁶ For particularly relevant examples, see the JEC hearings on June 24th, July 30th, July 13th and October 31st. For testimony directly contrasting the political difficulties facing an American industrial policy with the situation in Japan, see especially the testimony of Hugh Patrick whose testimony at the JEC was later published as a report (JEC 1983a). Patrick, while warning that ‘we should not underestimate the Japanese government’s ability to implement a high-technology industrial policy’, also emphasised that ‘I am sceptical that any direct copying of the Japanese model would work in the United States, administratively or substantively (JEC-R 1983, 18, 22). It is also worth noting that even commentators fairly sympathetic to industrial policy expressed concerns about the political difficulties. Robert Noyce for instance, when discussing what he considered to be the clear success of Japanese

that the Japanese ‘worked their miracles under unique political and economic circumstances’ unlikely to apply to the US and that there was a need ‘to examine the current proposals for an industrial policy with an eye toward the political and economic realities of the United States’ (quoted in Badaracco and Yoffie 1983, 14).

These attacks on the political feasibility of industrial policy found fertile ground with many policymakers and opinion formers. Within the industrial policy hearings, politicians frequently expressed scepticism that any institutional configuration could prevent an industrial policy becoming captured by special interests, or that the government could assemble sufficient expertise to manage an effective industrial policy. Congressmen Daniel Lundgren, Chair of the JEC noted ‘I just have a major concern about [industrial policy] with respect to the political judgment overriding economic judgment’ (JEC 1983a, 248).

Advocates of industrial policy were largely unable to find an effective response to such concerns, frequently being forced to admit that concerns about implementation were indeed a major issue for industrial policy. Even Reich, perhaps industrial policy’s most stalwart advocate, recognised that the ‘challenge of industrial policy is ultimately more political than economic’ and revolved around ‘how in our very decentralised system of political bargaining can we achieve coherence?’ (HSES 1983(3) 221). Such exchanges gradually eroded any sense that industrial policy was *different* from general proposals for more government intervention, undercutting the enthusiasm that had initially greeted it.

...

These three factors: the disunity of the industrial policy coalition; institutional/political barriers to implementing industrial policy; and the venture capital industry as an alternative, more free market solution to the problems industrial policy advocates raised, all played a critical role in the discourse justifying the rejection of industrial policy. Having concluded its hearings on industrial policy, the JEC issued a report that recognised both the existence of capital market

industrial policy in the semiconductor industry remarked ‘I would like to comment that I have great difficulty in believing that we in the United States have the ability to pick winners and losers’ (HSES 1983(3) 517).

gaps and the effectiveness of some Japanese industrial policy measures. However, it emphasised that;

Even if Japanese industrial policy can be tabbed as a smashing success, the question is does the Japanese experience have relevance for a U.S industrial policy? The answer...is a resounding no (JEC-R, 1984, 67).

Shortly thereafter the JEC published a further report on the role of venture capital in the US innovation process, noting that ‘the best way to deal with capital gap problems is to pursue policies that increase the supply of venture capital’ (JEC-S 1984d, 24) and that:

As an alternative to industrial policy approaches...federal, state and local governments should use their tax, regulatory and expenditure authority to target the process of innovation by removing barriers to the expansion of venture capital (JEC-S, 1984d, 51).

Such remarks do not in themselves show that these ideas played a decisive role in the defeat of industrial policy or that industrial policy proposals would not have been dismissed regardless. However, they do indicate the way in which the supply-side regime, as it was emerging in forums like the JEC in the 1980s, had adapted to incorporate and counter the main arguments of the industrial policy movement.

Part Two: The Consequences of the Industrial Policy Debate

By the close of 1984, active debate about whether the US should adopt a national industrial policy was largely over. Critics of industrial policy had successfully argued that such a policy was unworkable given the nature of American democracy and that the United States had other strengths to draw on. The core policy instruments which industrial policy advocates had hoped to construct as the basis of their new policy regime - a National Development Bank, industrial sectorial councils, and an American version of MITI to coordinate national industrial strategy - had been firmly consigned to beyond the realm of political possibility. Following Reagan’s landslide re-election, it seemed that the triumphant, incipient neoliberal regime had thoroughly seen off its erstwhile political challenger.

Below the surface of this defeat however, many of the concerns and anxieties that had prompted the industrial policy debate would continue to dominate policy discussions. Its founding assumption - that the United States was facing serious decline in its national competitiveness -

increasingly became a truism within Washington circles, as demonstrated by the activities of the *Presidential Commission on Industrial Competitiveness*. This Commission, established by Reagan in 1982 to neutralise the industrial policy issue, was tasked with conducting a comprehensive report on the competitiveness of the US economy. The Commission's report, which took as its starting point B.R.I.E's definition of international competitiveness, argued that the US was indeed facing a serious decline in competitiveness and that reversing this decline should be a major goal of economic policy. The report opened with warnings such as;

Our ability to compete internationally faces unprecedented challenge from abroad. Our world leadership is at stake, and so is our ability to provide for our people the standard of living and opportunities to which they aspire (*Report of the Presidential Commission on Industrial Competitiveness 1985*, 3).

The Commission's report, and Congress's response to it, inaugurated bipartisan discussion concerning how to revive American competitiveness. One of the debate's central forums for discussion was the JEC - one of the earliest committees to hold hearings on the competitiveness question (Hughes, 2005, 214).

In comparison to the preceding industrial policy debate, the competitiveness debate did not have such overtly partisan dimensions. Industrial policy had manifestly been a left-right issue with few conservatives, notwithstanding the occasional maverick,¹²⁷ expressing support for the idea. The need for restoring competitiveness, by contrast, was firmly recognised by both Democrats and Republicans and the parties competed to 'own' the issues of competitiveness. For instance, in the party platforms for the 1988 election, the Democratic platform stated, 'we can and must improve our competitiveness in the world economy... through a greater commitment to civilian research and development' (Democratic Party Platform, 1988, 3). The Republican platform meanwhile was to 'preserve and expand our competitive edge, thereby ensuring future opportunities for America's next generation' (Republican Party Platform, 1988, 5).

¹²⁷ There had certainly been some conservative interest in industrial policy. For instance, Kevin Phillips, the Republican strategist whose influential book *The Emerging Republican Majority* (1969) anticipated the successful 'Southern strategy' employed by Richard Nixon, made a full throated defence of a business-friendly national industrial strategy. To a not insignificant extent these voices on the right still have a contemporary legacy. It was only in 2019 when the *National Conservatism Conference* passed the resolution that 'America should adopt an industrial policy'.

The unanimity of the political establishment regarding the problem of national competitiveness is especially striking given the opposition the concept had faced during the industrial policy debate. In that context, many had disputed that the US faced problems of competitiveness and doubts emerged whether ‘national competitiveness was even a meaningful label’ (Krugman 1983, 6). These controversies prompted the final *JEC Report on Industrial Policy* to declare ‘America is not deindustrializing, and it is not losing its industrial competitiveness’ (JEC-S 1984a, 25). Yet in the context of the competitiveness debate, the intellectual atmosphere had changed completely. Both the appropriateness of ‘competitiveness’ as a metric, and that the country faced deep competitiveness challenges, seemed beyond serious dispute. Congressman Daniel Lungren, a leading critic of industrial policy proposals, nevertheless conceded that ‘over the last decade, the competitiveness of U.S industry has gradually deteriorated’ (JEC, 1983d, 86) and Republican Congressmen, Ed Zschau, argued that ‘over the past 20 years, US competitive leadership in high technologies has been seriously eroded’ (JEC, 1983d, 86).

Beyond the general acceptance of ‘competitiveness’ as a problem for policy to address, the competitiveness debate also saw other basic assumptions from the proposed industrial policy paradigm appropriated and adapted for new purposes. As I discuss below, these included ideas about capital market gaps, the strategic nature of world trade and the potential effectiveness of foreign industrial targeting. All of these were ideas vigorously contested during the industrial policy debate but that increasingly gained some acceptance in the emerging neoliberal paradigm. Of course, when ‘external’ ideas are incorporated into a larger ideational order several potential processes can emerge. As paper one of this thesis suggests, these include *reworking*, where policy prescriptions are subtly changed to take into account new goals and assumptions; *rejustification*, where given policies are justified on a new basis; and *adaptive problem solving*, where unanticipated policies are suggested in response to newly recognised problems. All these processes can be seen throughout the competitiveness debate.

Such processes, I argue below and in paper four, had two important consequences. Firstly, they helped produce a major transformation of US science and technology policy, resulting in the emergence of a new, albeit hidden, US developmental state. This state placed the venture capital industry at the heart of the US system of innovation and relied on private-sector actors to direct the process of capital allocation. It was therefore, helpfully, not seen as *incompatible* with the US free market system in the way the proposals of industrial policy advocates had been. A

second consequence was that the foreign industrial policies practiced by states such as Japan, began to be seen as a major threat to American competitiveness and global leadership within the domain of US foreign economic policy. Over time, this led to the emergence of an anti-developmental order in foreign economic policy, concerned with the use of aggressive, unilateralist trade policy to combat or contain such policies.¹²⁸

Reworking, rejustification and the emergence of the US hidden developmental state

Central to the industrial policy debate had been the claim that the American economy contained significant ‘capital market gaps’ which prevented capital from flowing easily to high risk, high reward enterprises. While these claims had been vigorously contested during the industrial policy debate itself, the debate’s aftermath saw a more ambivalent tone spread throughout Washington policy circles. It was frequently argued that there were significant ‘imperfections’ in America’s capital markets which thoughtful policy might improve. A JEC Report on the *US Climate for Entrepreneurship and Innovation* was an important milestone in this regard. This report claimed to provide ‘substantial evidence that small and large investments are not being made based on their economic merit’ (JEC-S 1984c, 48) and that ‘noneconomic factors, such as lack of expertise in evaluating risky investments, are contributing to the capital gap problem’ (JEC-S 1984c, 52) It particularly highlighted three *kinds* of capital gap problems. Firstly, a *small-business capital gap* arising from the fact that much of the financial industry, it was argued, had an institutional bias against supporting small businesses because of a lack of expertise in small-enterprise issues (JEC-S, 1984c, 47). This was viewed as a serious problem because small enterprises were judged most likely to develop and rapidly implement new technologies or innovative business models. Secondly, a *regional capital gap* - arising as business investment was arguably likely to pool around localised, high-growth clusters meaning businesses in many areas would struggle to attract capital (JEC-S 1984c, 49). This pooling was recognized as a problem for promoting broad based national prosperity. And, thirdly, a *research-commercialisation gap*. Here, despite the fact the US led the world in innovation due to its highly successful universities and national laboratories, there was a gap between the *production* of new technological innovations and the *allocation* of capital for commercialising

¹²⁸ Paper four of this thesis discusses the impact of this on US relations with Japan and China.

these new technologies (JEC-R 1984d, 51).¹²⁹ Alongside this gap, there was a lack of investment in joint research projects between firms - a critical means for the diffusion of knowledge and expertise - because of restrictions in federal antitrust law. Significantly, such conclusions were largely based on the authority of venture capitalists. In 1984 The JEC commissioned a survey of venture capital firms in which 63% of those polled argued there was significant bias in traditional capital markets (JEC-R 1984d, 43).

Alongside the recognition of such capital market gaps, came an emphasis that the solution to such problems was to be found in the venture capital industry. The same JEC report that stressed the existence of such capital gaps also stressed that:

The size of the capital gap problem was found to decrease with growth in venture capital availability...A policy to encourage the growth in venture capital supply would clearly be an appropriate approach for improving the financial climate...another complementary policy would be one that encourages large financial institutions to rely on financial intermediaries such as venture capital firms (JEC-R, 1984c, 50).

In the foreword to this Report, Congressman Daniel Lungren expressed in dramatic terms the importance placed on venture capital:

Venture capital has become indispensable to the nation's overall climate for entrepreneurship and innovation...policymakers will now have to ponder how that process can be sustained over time...Nothing less is at stake than the continued technological leadership of our country. (JECR 1984c, vii).

One of the first places that this new focus on venture capital had consequences was in the debate on capital gains tax. Taxation on capital gains had been an extremely contested and controversial policy issue during the 1970s and 1980s. Having reached historic highs with the *1976 Tax Bill*, supply-siders had succeeded in getting the effective maximum rate reduced to twenty percent through the *Tax Reform Acts of 1978 and 1981*. With much of the left denouncing such cuts as highly regressive giveaways to the rich, Democrats were able to successfully increase the maximum rates to twenty-eight percent in 1986. The Reagan

¹²⁹ This was also a major theme in the JECs broader report *The US Climate for Entrepreneurship and Innovation* (JEC-S, 1984c).

administration had agreed to this hike in exchange for cuts in marginal income tax rates. Yet this compromise also reflected the ambivalence that Reagan and many supply-siders felt about taxing capital gains less than ordinary income. According to former Reagan policy advisor Bruce Bartlett for example, ‘Reagan agreed with Democrats that capital gains and ordinary income ought to be taxed at the same rate’ (Bartlett 2012).¹³⁰

The competitiveness debate and the increased focus on the venture capital industry reinvigorated the case for a preferential capital gains tax. In earlier debates arguments for low capital gains tax had rested on the need to simplify the tax code, or on the argument that it amounted to unjust ‘double taxation’. Increasingly however, it was argued that a low, preferential capital gains tax was necessary to support the venture capital industry and correct biases in capital markets towards low-risk, short term opportunities. Richard Kramlich, President of the *National Venture Capital Association* for instance, noted that;

Taxing capital gains as ordinary income...sends a clear signal to individuals and corporations that there is nothing special about long-term investments. As a result, the emerging company, once and still among this nation’s most precious resource, has been placed on the endangered species list.¹³¹

Advocates were equally adept at exploiting the concerns about competitiveness vis-a-vis Japan which had been raised in the industrial policy debate.¹³² A 1991 report on capital gains by the *Manufacturers Alliance for Productivity and Innovation*, for instance stated that;

Japanese tax and economic policies aim to keep the cost of capital low...which in turn has meant a higher rate of productivity and increased competitiveness in comparison to its firms. If US policy fails to stimulate investment...there is no question that US industry will become less competitive in world markets.¹³³

¹³⁰ In essence, among supply-siders there was some internal disagreement on whether the goal should be to tax capital gains and ordinary income at the same rate, or whether, because income used for capital investments had already been taxed previously, the capital gains tax should be abolished as an unjust case of double taxation (Bartlett 2012).

¹³¹ Statement on behalf of the *National Venture Capital Association*, submitted to the House Committee on Ways and Means, February 5 1992.

¹³² A major theme emphasised by supply-siders was that Japan lacked significant taxes on capital gains. See JEC 1981, JEC 1981f and especially JEC 1984c and JEC 1982e.

¹³³ Manufacturing Alliance for Productivity and Innovation ‘*Why U.S Companies are at a Competitive Disadvantage*’ 1991, 1.

The competitiveness debate therefore saw a process of rejustification, with supply-siders using the new emphasis on capital market gaps to push for low capital gains taxes. With the aid of such arguments, supporters of low capital gains were able to reintroduce a differential rate for long-term gains in the *Budget Acts of 1990 and 1993*. This would ultimately lead to further cuts, reducing the capital gains tax to historic lows after 1997. In this way, arguments from the industrial policy regime about the need for special measures supporting long-term capital formation had been appropriated within the supply-side regime to provide a new and more politically secure justification for low capital gains taxation.

Alongside the establishment of a favourable tax regime for venture capital, concerns about capital market gaps also drove a major reworking of US science and technology policy. US science and technology policy since the Second World War emphasised government funding for basic research; pursued both through the universities and a nation-wide system of laboratories. Results of this research were made freely available for use by private companies with the expectation that further applied research would generate economic benefits. Much of the competitiveness debate centred around how this system of science and technology policy could be adapted to better address capital market gaps and improve US competitiveness.¹³⁴ This new policy agenda had three broad areas of focus.

Firstly, helping small businesses access research grants by ‘reworking’ federal science and technology policy to allow greater access for small businesses. This reworking came from concerns that small enterprises had greater difficulty competing for research grants and a belief that such businesses were often particularly dynamic. It was primarily achieved through the *Small Business Innovation Research Program* (SBIR), which began in 1982 and was reauthorized in 1986, and which required that all federal agencies reserve a small percentage of their research and development budget to provide grants for small and medium sized enterprises.

A second major focus of reform was making it easier for private companies to acquire intellectual property rights to research produced in universities or federal government

¹³⁴ See the discussion in JEC 1982c and JEC 1984e.

laboratories.¹³⁵ The aim here was that such property rights would create stronger incentives for firms to do the applied research necessary to commercialize new technological innovations. And finally, a third and important set of reforms focused on relaxing antitrust law to allow private firms to engage in joint research agreements with support from government agencies.¹³⁶ This allowed for the creation of industry consortia, which often worked closely with the government to advance applied research in specific sectors. The most famous and successful example of such consortia was undoubtedly *SEMATECH*; a partnership between the US government and the fourteen top American semiconductor manufacturers that sought to reverse the setbacks the industry had faced due to Japanese innovation and expansion in this area (Hughes 2005, 121-25).

A notable feature of this agenda was the way it placed venture capital at the heart of the US system of innovation, pursuing many reforms long desired by that industry. For instance, the emerging technology transfer agenda emphasised giving venture capitalists the right to claim access to government intellectual property,¹³⁷ and the relaxation of antitrust law allowed for more frequent mergers and acquisitions.¹³⁸ It was also seen in the increased availability of federal funds for start-ups made possible by the SBIR (which often relied on matched funding for venture capital investment thereby implicitly subsidising the venture capital industry). Finally, it was seen in the establishment of many government sponsored venture capital funds that promoted new technologies relevant to the remit of different government agencies. All these reforms, which placed venture capital in an increasingly central role in the US innovation system, were powered by a belief that venture capital was the appropriate and necessary solution within a free market society to the problem of capital gaps. Given this idea emerged primarily out of the industrial policy debate, this constitutes an important effect that debate had on US innovation policy.

¹³⁵ Such efforts built on the 1980 *Bayh-Dole Act* that had given universities and non-profit organisations property rights over research produced with federal funding. The 1986 *Federal Technology Transfer Act* extended this by directing federal agencies to license such patents to private companies.

¹³⁶ For discussion on this point see, JEC 1983d.

¹³⁷ Such changes had long been a focus of the venture capital industry. In Congressional testimony during 1977, prominent venture capitalist David T Morgenthaler had emphasised that venture capitalists 'are always concerned when our states fail to keep up in the research and development activities or to make the results of such investment available to the private sector, because in such cases there will be a falling off of availability of venture opportunities' (1977, 119).

¹³⁸ Such relaxations of antitrust law were of great importance to the venture capitalist as typically the way venture capital companies 'exited' and made a return from an investment was when the start-up they supported was acquired by a major firm (Nicholas, 98).

This focus on employing venture capital as a means to address competitiveness problems was observable at the state as well as the federal level. The JEC also focused on how states in declining regions could generate the kind of deep and flexible venture capital markets already in existence on the coasts (especially in California).¹³⁹ This was particularly a theme of the JEC's 1984 staff study *The U.S. Climate for Entrepreneurship and Innovation* which dedicated considerable attention to state-level competitiveness initiatives (JEC-S, 1984c). Whilst criticising 'the engrained practice of chasing "the smokestack industries" with generous financial incentives' (JEC-S 1984c 54), the report simultaneously recommended tax-reform and targeted financial incentives to promote the growth of venture capital markets (JEC-S, 1984c, 59-60). This was justified, using a favoured phrase of the competitiveness debate, to 'target the process of innovation' and facilitate the emergence of high-technology industries (JEC-S, 1984c, 63). Such ideas were eagerly embraced by many states that enacted a series of regulatory and tax-policy changes designed to spur the growth of venture capital markets (Eisinger 1990; Nicholas 2019). Such efforts met with mixed success. Generally, for most venture capitalists, the lure of Silicon Valley was too great and there was too little incentive for venture capital firms to focus on investing in underdeveloped or deindustrializing regions (Nicholas 2019). Still, the fact that such significant efforts were made to develop venture capital markets in such areas is a striking testament to how powerful the idea of venture capital as a solution to competitiveness problems had become.

Given the wide range of measures taken aimed to increase the government's support of research and innovation from the mid-1980s onwards, it is tempting to see the US as pursuing an 'industrial policy in disguise'. However, for many policymakers, the changes made to science and technology policy were part of the competitiveness agenda. They believed the competitiveness agenda was fundamentally *different* from industrial policy because it was private sector led, with the government doing no more than following and relying on the insights of private firms. This conceptual distinction and the consideration of such private-sector led policy as legitimate in a way that active state-led industrial policy was not, is important in explaining why the 'hidden developmental state' has remained 'hidden' and has not been widely identified or associated with industrial policy.

¹³⁹ For discussion of this see particularly JEC 1982c.

Adaptive problem solving and the emergence of US anti-developmentalism

Another central claim of the industrial policy movement was that it was possible to create effective state institutions able to administer industrial policies effectively. Japan's perceived success with industrial policy was pointed to as evidence that such policies could be pursued effectively.¹⁴⁰ Such arguments had been effectively countered by the claim that states such as Japan were so different from the United States that any success industrial policies enjoyed in such states was of little relevance. As Daniel Lungren expressed it;

One of the things in the whole industrial policy debate that at least became clear to me was that those who tried to look at Japan as a sort of blueprint for the United States, failed to understand that Japan was in a rather unique position. (JEC 1984b, 67)

Yet, while critics had forcefully argued Japanese policies were not replicable and would be a costly failure in the US, they were more circumspect in proclaiming industrial policy a failure in Japan itself. Some, to be sure, felt that the effectiveness of MITI was over-exaggerated, and pointed out that macroeconomic policy together with the high Japanese saving rate had also been critical elements in Japan's success. Nonetheless, few felt confident in denying that Japanese industrial policy had had some successes, and the consensus was that it had been broadly beneficial to the Japanese economy.¹⁴¹ As a result, rather than declining after the industrial policy debate, assertions about the effectiveness of Japanese industrial policy continued to increase throughout the 1980s and influenced those officials responsible for US-Japan relations. In hearings before the JEC, United States Trade Representative, William Brock, argued that 'various elements in Japanese industrial policy have made an important contribution to Japan's international competitiveness' (JEC 1981d, 65). The same theme was reinforced by Commerce Secretary Malcolm Baldrige who noted that Japan;

Successfully targets certain of its major industries, protects them with high tariffs as they are growing up, gives them government subsidies to make them strong and then, when at last they are strong, turns them loose in the world and demands free trade (JEC, 1981d, 6)

¹⁴⁰ Such arguments are particularly evident in JEC 1981e and JEC 1982a.

¹⁴¹ For such commentary, see especially the *JEC Hearings on Japanese Industrial Policy* held on July 13th 1982 (JEC 1982a). It is also noteworthy that Charles Shultz in his highly influential critique of industrial policy, also stopped short of saying Japanese policy was ineffective, merely saying 'the contribution of...Japanese industrial policy to Japanese industrial success has been far overstated' (Shultz 1983, 4).

Echoing the conclusion of the industrial policy debate, Baldrige emphasised that ‘Japan’s success is the result of a unique and effective business-government relationship and a national consensus on the absolute priority of industrial growth’ (JEC, 1981d, 7). This widespread belief in the success of Japanese industrial policy, coupled with a belief in the inapplicability of similar policies in the US had important implications. The transformation of foreign industrial policies from a potential tool to a ‘present threat’ was sharply illustrated in a set of hearings held by the JEC on foreign industrial targeting, particularly focused on Japan. While these hearings were preoccupied with technical itineraries of the economic cost associated with various trade barriers, they were also distinguished by a concern that the future competitiveness of the US economy was at stake. Ronald Myrick, speaking on behalf of the *Semiconductor Industry Association* put the point especially strongly;

I would like to make clear...that the problem of Japanese market barriers is more than simply a matter of foregone revenue or jobs. Japan’s protected home market is ultimately a threat to American industry. (JEC 1985, 9)

Similarly, Robert Galvin, whilst representing the *Coalition for International Trade Equity* pulled no punches about the severity of the issue;

These targeting programs represent a serious and broad threat to U.S technological, security and economic leadership in the world (JEC, 1983c, 52)

Such discussions were set against a backdrop of continued US-Japanese competition in the semiconductor industry, widely regarded as an area of indispensable strategic importance. Enjoying a protected home market and guaranteed access to government credit, Japanese producers had been able to make heavy long-term investments to lower production costs putting the future of the US semiconductor industry in jeopardy. This episode convinced many policymakers that the Japanese were not simply going to abandon the industrial policies that seemed to be serving them well. It had been a common belief that Japan would likely move away from industrial policy themselves as they matured into an advanced economy. The semiconductor episode seemed to cast doubt on this, as was observed by Robert Noyce, Head of INTEL and a leading figure in the *Semiconductor Manufacturer Association*.

It may be that we can hope the Japanese will play the game by our rules, but I don't see any motivation for them to do so whatsoever since they perceive they are winning using the current strategy. And, indeed, they may win. (HSES 1983 (3) 514)

For these reasons, it became an increasingly common view that aggressive action on trade policy intended to force the removal of industrial policies, might paradoxically be necessary to protect the global free-trading system. This attitude was supported by key officials in both the Reagan and Bush administrations (Kunkel 2003). Even if there was agreement that the US should not seek to imitate Japan, it needed to *respond* to the potentially negative effects of Japanese practices. As Brock put it;

The preservation of free trade in the 1980s and 1990s...requires that we develop means of dealing with industrial policies that potentially distort trade. (JEC 1981d, 109)

This new mind-set was evidenced in the rise of 'revisionist' ideology within US-trade policy, so named because it sought to revise traditional US-trade relations with Japan. Revisionism was associated with a number of officials and public intellectuals, in particular with four writers who became known as the 'gang of four'. These included Chalmers Johnson whose '*MITI and the Japanese Miracle*' had done so much to establish notions of industrial policy in Japan in academic and policy circles; Karel Von Wolferen who interpreted Japanese industrial policy as uniquely derived from Japanese and East Asian culture; columnist James Fallows whose articles on Japan in *The Atlantic* served to popularise Johnson's and Wolferen's ideas; and Clyde Prestowitz, a Commerce official in the Reagan administration, who worked to fashion revisionist concerns into concrete policy recommendations. Like the industrial policy advocates, revisionists maintained that sufficiently intelligent interventions could allow nations to gain a large advantage in international competition¹⁴². Like the industrial policy advocates, they believed that Japan showed it was possible to build insulated developmental states capable of pursuing such intelligent interventions and that such interventions could correct for a lack of patient capital¹⁴³. Yet, unlike industrial policy advocates, they were deeply sceptical of the

¹⁴² For example, the revisionist concept of 'adversarial trade', whereby foreign governments seek 'to drive out and destroy the already weak industry' of other countries in emerging sectors clearly owed much to the notion of 'strategic trade' as it had emerged in the industrial policy debate (Drucker, 1986).

¹⁴³ Prestowitz, for example, noted that 'the single greatest weakness of U.S industry in competing with Japan...is lack of financial staying power. Our capital is both too expensive and too impatient' (Prestowitz, 1988. 328).

notion that the United States could build a similar kind of developmental state emphasising that in Johnson's words 'the Japanese Economy is a product of a different history...from that of the United States, of a different role for the state in economic affairs, or a different role for the economy in the overall scheme of things' (Johnson, 1992, 1). Instead of fruitlessly trying to imitate Japan the revisionists argued it was necessary to use trade policy to 'contain' the effects of Japan's developmental state. They wanted to limit Japan's ability to use industrial policies to damage the United States and protect the American free market- allowing its merits to shine through. If such protection was not provided, the revisionists warned, a dire future beckoned in which, as Johnson predicted, 'the US becomes the leading producer of soybeans and ICBMs while Japan produces everything in between' (Johnson, 1984, 12).

This new direction would ultimately result in significant changes for US trade policy. Within the post WW2 liberal trade regime, much of US domestic trade law was geared towards preserving support for free trade by offering concessions to protectionist interests during periods of intense import competition (Destler 2005; Chorev 2007). Within this system, 'safeguard' trade remedy laws that offered temporary relief to industries experiencing a surge in imports, were supposed to contain protectionist pressure and prevent demands for more general forms of trade protection. In the trade crisis of the 1980s however, a coalition of industries emerged demanding stronger action in the form of general protection against 'unfair' foreign industrial practices. Advocacy groups, such as the *Coalition for Fair Trade*, insisted that US trade law be reformed so as to more adequately respond to foreign practices which damaged US industry (Irwin 2017, 362).

These issues and concerns would become increasingly prominent within the JECs *Annual Economic Reports*, which began more and more to emphasise the importance of addressing unfair foreign trade practices. The 1984 Report for instance while dismissing industrial policy as a form of protectionism also noted;

This country cannot easily avoid such unfair trade policies if other countries do not make similar commitments. We must increase our efforts to combat unfair practices on the part of our trading partners...the United States should develop careful and measured responses designed to restore our legitimate competitive opportunities (JEC-R 1984, 39).

In subsequent reports, concerns increasingly focussed on whether the US trade policy system was capable of producing such a response. This was particularly evident in the 1987 *JEC Annual Economic Report* which focussed heavily on international economic policy and strongly criticised the inadequacies of US trade law. It emphasised how Section 301, the provision of US trade law aimed at addressing foreign trade practices, ‘has not provided substantial results in removing trade injury’ (JEC-R 1987, 58) and that therefore the provision required substantial strengthening. ‘Predatory trade measures, domestic subsidies, export aids, and cartel arrangements deny U.S. producers sales at home and abroad and should be removed’ (JEC-R 1987, 44).

Such well-publicised concerns would ultimately produce significant changes to the US trade regime in the form of the *Omnibus Trade and Competitiveness Act of 1988*. A watershed moment in the history of modern US trade policy, this Act significantly enhanced the Section 301 provision in US trade law; a provision which authorised the Office of the United States Trade Representative (USTR) to investigate unfair and unreasonable trade practices of other nations and pursue punitive measures designed to secure the removal of these trade barriers. In what became known as ‘Super 301’, USTR was required to designate priority foreign countries that practiced unfair trade policies and to begin 301 investigations against these states and report to Congress on actions to address these issues. The law initiated an important transformation in US trade policy. Now, the USTR would aggressively and unilaterally pursue negotiations over foreign trade practices, often independent of the multilateral GATT (and later WTO process).¹⁴⁴ It therefore marked a significant, protectionist turn within US trade policy.

It is unlikely, I suggest, that this transformation in US trade policy would have occurred were it not for the industrial policy debate. In order to argue for the stronger measures contained in the shift towards *Section 301 Unfair Trade Remedy* legislation, protectionist interests had to constantly refer to arguments about industrial policy; arguments about its effectiveness and its

¹⁴⁴ It is worth noting that this aggressive approach to negotiating the removal of Japanese industrial policies had been forcefully advocated by many venture capitalists during the industrial policy debate. Venture capitalist Roger Borovoy, for instance, argued that in order to radically improve the US competitiveness position ‘I think you have to stand up to the Japanese and make them change their ways’. Elaborating, he argued that the solution ‘would be to tell the Japanese...you show us how your markets are opened to us in A, B, and C products that we should be selling there that we aren’t...or we’re going to shut the gates, we’re going to find a mechanism, we’re going to get it through Congress because we’ve had enough’. ‘That is the first thing I would do’, he concluded, before swiftly adding ‘and then, of course, I would remove the rest of the capital gains tax for venture capital (HSES 1983 (1), 627).

centrality to the economic policy of Japan, which had first come to prominence during the industrial policy debate. If the industrial policy debate had not occurred, this ideational repertoire would not have been so readily available for protectionists to draw on. Moreover, if that debate had been resolved based on a consensus that industrial policies were ineffective everywhere, not on the grounds that they were simply impractical in the United States, it would have been far harder to establish that such foreign industrial policies were a general threat to the prosperity of the United States. Yet, given the dynamics that had characterised the industrial policy debate, the idea that Japanese foreign industrial policies were a serious problem for the United States and that special measures were required to address them held serious sway within US political discourse. This idea could therefore be used to power a significant transformation in US trade policy.

Conclusion

The idea of a national industrial policy in the United States was never adopted by the US government and thus can reasonably be viewed as a policy failure. Yet, even in defeat, it had a significant impact on the development of policy during the 1980s and beyond. The idea that the US faced a competitiveness crisis and that foreign industrial policies were a significant contributory factor to that crisis, was solidified through the industrial policy debate. In terms of competitiveness policy, it contributed to placing venture capital increasingly at the centre of the US national system of innovation. In terms of trade policy, it produced a concern with foreign industrial practices that transformed US foreign economic strategy, helping to build an institutional architecture for aggressive unilateralist trade policy. In the Trump trade war of recent times - launched through the provisions of the *1988 Omnibus Trade and Competitiveness Act* and centred on the dangers of Chinese industrial policy - the impact of this debate can still be seen.

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Paper Four

Facing Trade Enemies Across the Pacific: US anti-developmentalism towards Japan and China compared

Observers have compared the recent US-China trade conflict to the disputes between the US and Japan in the 1980s and 1990s. Yet American strategy in these two conflicts has, to date, not been thoroughly compared. This paper examines US negotiation strategy towards its two trade enemies across the Pacific. It argues that while in both cases US strategy reflected an anti-developmental assumption that the industrial policies of China/Japan constituted a major threat, the approach to dealing with this threat has differed substantially. In the case of Japan, US policymakers adopted a 'results-oriented' approach that emphasised securing market share for American firms. In the case of China, policymakers instead pursued a 'rules-oriented' strategy predicated on securing major reforms to the Chinese developmental capitalist system. The paper attributes this change to a combination of external and internal factors including the different character of US-Japan and US-China relations and the distinctive features of Chinese industrial policy. It particularly argues, however, that the ascent of the Office of the United States Trade Representative (USTR) to a place of greater influence in the US trade policy apparatus has played a central role in pushing US trade policy in a rules-oriented direction.

Introduction

As Donald Trump's final two years in office saw tensions between the US and China over trade explode into a fully-fledged trade war, observers noted the close parallels between this contemporary conflict and that between the US and Japan in the 1980s (Lee 2018; Liu and Woo 2018; García-Herrero and Iwahara 2019). The parallels certainly are many and striking. In both cases, the US confronted a rapidly growing Asian-Pacific nation widely expected to surpass it as the world's preeminent economic power.¹⁴⁵ In both cases, behind high profile US complaints about extreme trade imbalances, lurked deeper concerns about the 'developmental capitalist' model practiced in Japan and the more statist variant practiced in China, with associated industrial policies said to constitute major barriers to trade (Bown and McCulloch 2009).

¹⁴⁵ For such predictions concerning Japan in the 1980s, see Burstein 1988, Prestowitz 1988, Fallows 1994. For similar predictions in relation to China, see, for example, Jacques 2012.

Similarly, in both cases, such concerns allowed political hardliners to, at least temporarily, seize control of the trade policy agenda and push for an aggressive strategy to confront these trade enemies across the Pacific (Kunkel 2003; Uriu 2009).

Given the close parallels between the two cases, commentators have had cause to wonder what lessons the earlier conflict between Japan and the United States might hold for contemporary US-China relations. Certainly, such an endeavour is useful if it helps us better understand US-China tensions and offer solutions to the current conflict, but it is also one fraught with difficulties. Japan and China are, after all, very different countries, with extremely different relationships with the United States. The factors that have shaped their economic struggles with the US are thus also very different. In this context, it is difficult to assess how far, if at all, the earlier American experience with Japan can shed light on the current confrontation with China.

This paper seeks to address this question by offering a comparative analysis of US negotiation strategy during the conflicts with Japan and China. Through this analysis the paper argues that there are indeed deep continuities between these two economic confrontations. Specifically, I argue that Japan and China both fell foul of an ‘anti-developmental order’ within US foreign economic policy; one which conceptualised the industrial policies of foreign states as a major threat to the US and advocated the use of aggressive, unilateralist trade negotiation in response to it. This order, I argue, originated in US policy debates during the 1970s and 1980s and reached maturity in its application against Japan. As I discuss in earlier papers in this thesis there is considerable continuity between the ideas, institutions, and indeed personnel of 1980s anti-developmentalism directed towards Japan and contemporary anti-developmentalism as applied to China.

Alongside this continuity however, I also argue there has been significant change in the *practice* of US anti-developmentalism towards China as compared to Japan. During the conflict with Japan the strategy advocated by American anti-developmentalists was - to use the language of the trade policy literature - ‘results-oriented’ (Ethier and Horn 1996; Krishna and Morgan 1996; Verdier 1998). In other words, rather than seeking to enforce clear principles on issues such as industrial policy, US strategy evolved to focus on demanding set outcomes in terms of sales and market share accruing to American firms. Results-oriented policy was at the very centre of American strategy towards Japan, a point emphasised in recent scholarly works (Kunkel 2003;

Uriu 2009). Yet, in the current US-China conflict, the concept of results-oriented policy has been notably absent. Instead, US strategy during the negotiations has shown a much stronger orientation towards agreeing enforceable rules and securing reforms of the Chinese economy.

I argue in this paper that behind this seemingly technical distinction of ‘rules’ versus ‘results’ oriented policy lurks an important change in the nature of US anti-developmentalism. As I attempt to show, results-oriented policy - in the minds of its advocates - represented an attempt to find a durable compromise to allow developmental states and free-market capitalist states to coexist effectively. It was not based on an expectation that Japan would or should abandon its system of industrial policy and was instead an attempt to *accommodate* that system by minimizing its perceived damage to the United States. This was judged important, given that Japan was recognised to be an ally of the United States rather than a rival and therefore a nation it was important for the US to coexist effectively with. Thus, while widely viewed as highly aggressive and unreasonable, there is a sense in which results-oriented policy - in the minds of anti-developmentalists - was conceived of as a conciliatory measure to allow commercial relations to proceed more peacefully. This, I argue, has not been the case with the more rules-oriented policy pursued by latter day anti-developmentalists against China. This approach has, instead, been founded on the belief that Chinese state-developmental capitalism and US free market capitalism *cannot* coexist freely and that the Chinese must either fundamentally abandon their economic model or accept a permanent trade war with the United States. In this way, the anti-developmental strategy which has been deployed against China is much more aggressive and uncompromising than that employed in the 1980s against Japan.

This change in direction in US strategy, from a primarily results-oriented to a primarily rules-oriented one, is, I argue, reflective not only of external geopolitical factors but also of significant *internal* changes within the US trade policy apparatus itself. Specifically, institutional changes have meant that, while the US-Japan conflict was coordinated primarily by the Department of Commerce and the US Treasury, in the current conflict with China a more critical role has been played by the *Office of the United States Trade Representative* (USTR) and by the *US Departments of State* (State). As I discuss below, the somewhat different orientation of these power centres, coupled with external differences in geopolitics has had important implications for how US strategy has developed.

The argument of this paper employs a comparative approach, contrasting US-Japan and US-China conflict as two distinct cases across time (Haydu 1998). Such an approach assumes that these two cases are sufficiently similar cases for comparison to be meaningful; an assumption I defend in the first part of the paper. Empirically, the paper draws on the testimony of US trade policy officials given in Congressional hearings during the US-Japan and US-China conflicts. With respect to the US-Japan conflict, the paper draws on hearings held by the *Senate Finance Committee's Subcommittee on International Trade*, (henceforth abbreviated as SFC). With respect to US-China conflict the paper also makes use of testimony before the SFC on trade policy (2018-20) as well as from testimony on US-China trade policy (2017-2019) before the *Committee on Ways and Means* (WMC) and at the *United States-China Economic and Security Review Commission* (henceforth abbreviated as USCC). The table below sets these out in abbreviated form, coded for in text referencing.¹⁴⁶

Senate Finance Committee, United States Congress. Hearing Before the Subcommittee on International Trade	
United States-Japan Trade (1985)	SFC 1985
United States-Japan Structural Impediments Initiative (SII) (1989)	SFC 1989
United States-Japan Trade Relations (1990)	SFC 1990
Super 301: Effectiveness in Opening Foreign Markets (1990)	SFC 1990a
United States-Japan Trade Relations (1990)	SFC 1990b
Renewal of the United States-Japan Semiconductor Agreement (1991)	SFC 1991
Japan's Keiretsu System (1991)	SFC 1991a
Japan's Trade Concessions (1992)	SFC 1992
President's 2018 Trade Policy (2018)	SFC 2018
President's 2019 Trade Policy (2019)	SFC 2019
President's 2020 Trade Policy Agenda (2020)	SFC 2020
Hearing Before the Committee on Ways and Means US House of Representatives	
The US Trade Policy Agenda (2017)	WMC 2017
The 2019 Trade Policy Agenda (2019)	WMC 2019
US-China Trade (2019)	WMC 2019a
United States-China Economic and Security Review Commission	
Evaluating China's Past and Future Role in the World Trade Organization (2010)	USCC 2010

The argument made in this paper has some bearing on wider theoretical debates concerning the determinants of foreign policy. As Allison argued in his seminal work *Essence of Decision*

¹⁴⁶ Full citations of all hearings I examined are given at the end of the paper and coded to make clear how in text referencing works. Transcripts of hearing proceedings are printed chronologically with page numbers of sessions following on from each other.

(1971), it is often tempting for researchers to view foreign policy decisions through a ‘rational actor lens’, treating the state as an individual unit which pursues policies towards other states based on what it rationally calculates to be in its interest. This temptation is often at its greatest with regards to situations characterised as ‘great power conflicts’, a description arguably applicable to US-Japan economic relations in the 1980s and 1990s and certainly applicable to US-China relations at present. The great danger here, is that as valuable as the rational actor lens often is, it prioritises the role of external factors *over* the internal workings of a state, in ways which threaten to fundamentally distort perceptions. This paper therefore seeks to avoid the siren calls of the rational actor lens by emphasising the importance of both external *and* internal factors in the changing US trade strategy towards China as compared with Japan in the 1980s. I stress that, although the oft-noted fact that Japan is a US ally and China is not has indeed been a critical consideration in shaping US strategy, this mere fact of geopolitics did not, and could not dictate the shift from results to rules-oriented policy. Rather, the implications of Sino-American rivalry had to be refracted through the nexus of ideas and institutions which make up the anti-developmental foreign economic policy order. In arguing this, the paper therefore seeks to support a constructivist reading of US-China economic relations.¹⁴⁷

The argument of the paper proceeds in three sections. In the first section, I provide a summary of the US-Japan and US-China conflicts and the negotiation strategy pursued in both cases. I compliment this by outlining the concept of rules-orientated versus results-oriented policy and discuss how the US-Japan conflict became characterised by the latter and the US-China conflict by the former. The final two sections of the paper interpret the reasons behind this alteration in strategy: examining both external factors such as differences between Chinese and Japanese industrial policy, and internal factors, particularly the rise of the USTR within the American trade policy apparatus. The paper then concludes with some general reflections on the implications of this argument for the study of US foreign economic policy.

¹⁴⁷ Constructivism in the context of international relations and IPE refers to a theoretical perspective which views relations between states as determined not by fixed aspects of the international order but rather by the influence of socially constructed institutions and ideas (Hopf 1998; Guzzini 2000). Constructivist approaches have rarely been applied to the study of US-China relations; an issue which due to its close association with ‘great power struggles’ tends to be a natural stomping ground for more realist perspectives (Rigger 2014). However, this has recently begun to change with scholarship increasingly pointing to the value of constructivist perspectives for understanding issues in the US-China relationship (Skonieczny 2018). The argument of this paper contributes to such scholarship.

Trade Policy in the US-Japan and US-China conflicts

Given that the analysis below relies on the assumption that the US-Japan and US-China trade conflicts are similar cases that can be fruitfully compared, I defend this assumption by beginning with a brief overview of these two trade conflicts. Tensions between the US and Japan had a long gestation, simmering for much of the late 1960s and 1970s before reaching their height in the 1980s (Curtis 1970; 2000; Schoppa 1997). Ballooning trade deficits and the so-called ‘invasion of Japanese imports’, a spate of Japanese acquisitions in the US economy and the high-profile successes of Japanese firms in several previously American-dominated sectors, generated immense concern as well as intense scrutiny of the industrial policies said to underpin Japan’s successes (Kunkel 2003). By the mid-1980s a growing intellectual movement, termed ‘revisionism’ because of its desire to revise US trade policy toward Japan, had emerged calling for major changes in the US approach to Japan (Uriu 2009). This perspective was particularly propagated by a group of writers who became known as the ‘gang of four’; these being the former Reagan trade policy official Clyde Prestowitz, the Atlantic columnist James Fallows and the academics Chalmers Johnson and Karel Von Wolferen (Morris 2011). The increasing prominence of such views in the media, coupled with sustained pressure from Congress would increasingly force the Reagan and later the Bush administration to take action on Japan (Curtis 2000; Kunkel 2003).

For the first half of the 1980s, the centrepiece of US strategy towards Japan lay in negotiating changes to the international monetary system, it being widely believed that the overvaluation of the dollar and the undervaluation of the Yen (aided by currency manipulation) was the fundamental cause of the large US-Japan trade imbalances (Kunkel 2003, 43–47). This strategy culminated in the 1985 *Plaza Accord*, a landmark agreement in which the Japanese agreed to allow a substantial appreciation in the Yen’s value (Brown 1994; Frankel 2015). Alongside these negotiations, a series of bilateral talks were initiated aiming to secure liberalisation of the Japanese economy. These included the *Market Oriented Sector Selective* (MOSS) talks and the *Strategic Impediments Initiative* (SII) (Schoppa 1997; Kunkel 2003). Compared to the substantial achievement of the Plaza Accord, these negotiations in themselves achieved limited success. Officials frequently compared the process to a game of ‘whack-a-mole’ where in the words of senator John Danforth ‘you negotiated down one barrier and as soon as you have

gotten that out of the way, five more pop up in its place'(Quoted in Schwabb, 1994, 127).¹⁴⁸ In light of such failures, pressure grew for more aggressive and forceful action against Japan. One important marker of this was the *US-Japan Semiconductor Agreement of 1985*, which committed Japan to ensuring 20 percent of its domestic semiconductor market was controlled by foreign firms and set up harsh sanctions in case this goal was not met (SFC 1991 67-73; Flamm, 1996;). Heralded by Japan hawks as the kind of steps necessary to 'take on Japan' the agreement served as a model of what a revisionist strategy might look like (Kunkel 2003, 53-58).

Tensions with Japan continued to intensify in the early 1990s reaching their height in the Clinton administration and in the fraught negotiations that surrounded the '*Framework for a New Economic Partnership*' (SFC 1992 78-84; Kunkel 2003, 121-29; Uriu 2009). However, it was soon after this that the US-Japan conflict began to dissipate. Many reasons have been suggested for this de-escalation - the stagnation of Japan's economy in the 1990s together with American economic strengths significantly reduced US anti-Japan anxieties. The rise of China, already beginning in earnest, increasingly diverted US attention and reduced American interest in 'picking fights' with its main US ally in East Asia. Also, far from being more acceptable to Japan as revisionists like Prestowitz had hoped, results-oriented policy had instead been much more antagonizing to the Japanese and caused diplomatic tension simply not worth the benefit from the US point of view (SFC 1990b 131-5; Uriu, 2009). Whatever the reasons, the period since the 1990s has seen relative tranquillity in US-Japan trade relations.

Tensions between the US and China on trade pick up almost exactly where the US-Japan tensions decline. Already, in 2000, the question of whether to support Chinese membership of the World Trade Organisation (WTO) had attracted controversy in the US. In the following decade, as US-China trade imbalances reached huge proportions and it became increasingly accepted that Chinese promises of liberalization which accompanied their entry into the WTO were not materializing to the hoped for degree, opposition to Chinese trade practices grew in a manner similar to as had been the case with Japan (Bown & McCulloch, 2009). Many of the figures who had been important in shaping the hard-line policy towards Japan, such as Clyde

¹⁴⁸ For examples of this see for instance the testimony of Williams Linn - Deputy US Trade Representative -, as well as Charles Dallars - Assistant Secretary for International affairs at the Department of Commerce – and Richard McCormack - Undersecretary for Economic and Agricultural Affairs at the Department of State- during the Senate Finance hearings on the results of the SII dialogue (SFC 1989, Part 3, 5-13).

Prestowitz and Robert Lighthizer - Assistant United States Trade Representative during the Reagan administration, became prominent contributors in Congressional hearings calling for a similar approach to China as the one taken to Japan (USCC 2010; Slobodian 2018). The same concerns about industrial subsidies, regulatory barriers, and currency manipulation that had been levelled at Japan were soon levelled at China. This contributed to a tougher US stance – one already visible in the Obama administration in the form of increased cases taken to the WTO and in attempts to contain China through the Trans-Pacific Partnership (Murdaco 2016). With Trump in the White House, the hardliners on China gained still greater ascendancy and pursued a trade conflict with China in ways unprecedented in its breadth and intensity (SFC 2019; Bown 2019).

The hard-line approach to China pursued by the Trump administration was to some extent modelled on the earlier approach taken to Japan. Firstly, there was a direct continuity in personnel, with Lighthizer serving as the Head of USTR during the Trump administration. Moreover, there were direct attempts by supporters of Trump's China policy to link it to earlier efforts with Japan.¹⁴⁹ Yet, despite the significant parallels and continuity there have also been notable divergences in the direction of US strategy. To best illustrate this, I now turn to the concept of 'results' versus 'rules'-oriented strategy.

The distinction between 'results-oriented' and 'rules-oriented' policy within the trade policy literature first emerged in the 1980s and developed in significant part to explain the US approach to Japan (Krishna and Morgan 1996). Essentially, while a rules-oriented policy aims to negotiate common principles to regulate trade and then to ensure these principles are enforced, a results-oriented policy instead seeks to ensure a particular *pattern* of trade is agreed, in terms of the amount of exports or a percentage of the market share, and then to enforce that agreement (Verdier 1998). Results-oriented policy is therefore defined by 'demanding quantitative indicators of market access gains' (Kunkel, 2003, 2). The logic behind this is that if

¹⁴⁹ Lighthizer for instance repeatedly praised the efforts taken by the Reagan administration to counter Japanese industrial policy in the 1980s (2008) and described the Trump administration as 'aiming to replicate that approach in respect of China' (WMC 2019a, 36). While castigating virtually all recent administrations for their neglect of trade issues and the problem of foreign industrial policies Lighthizer singled out Reagan for praise, arguing that the voluntary restraint agreements established in the 1980s 'had a huge impact and saved US industry for that time' (SCF, 2019, 27). Interestingly though Lighthizer also specified that the limited nature of such voluntary export restraints as opposed to more radical action did not 'fundamentally' solve the basic problem of foreign industrial policies (SCF, 2019.27).

a foreign country is restricting trade but has such opaque rules that it is difficult to determine *how* they are doing so, it may be more feasible to negotiate a particular result than to seek to identify and negotiate rules restricting trade (Ethier and Horn 1996).

To better illustrate the distinction between rules and results-oriented policy, it may be useful to give a hypothetical example. Suppose that Country A - to promote its automobile industry - provides large subsidies to its car manufacturers. As a result, these manufacturers can outcompete their counterpart car manufacturers of Country B and gain a commanding share of Country B's automobile market. For Country B, a rules-oriented response to this problem might be to insist Country A agrees to end all subsidies of its car industry thereby allowing for fairer competition. A results-oriented response from Country B, by contrast, might make no specific requests regarding Country A's subsidies but instead request that Country A takes unspecified measures to ensure that its car manufacturers do not take up more than some specified limit of a Country B's market.

To give another example, suppose that to encourage the development of its computer industry the government of Country A has a policy of procuring all its computers from domestic firms, even though firms from Country B can provide better quality computers at a lower price. If it were to pursue a rules-oriented policy, Country B might insist that Country A change its public procurement law - perhaps by insisting on a principle of always buying from the lowest cost provider. A results-oriented strategy meanwhile might just insist that a certain percentage of Country A's government purchase of computers must come from Country B. These examples hopefully illustrate two things. Firstly, that both rules and results-oriented policy can be applied in multiple markets, including both the internal market of a negotiating country and the internal market of a country being negotiated with. Secondly, while both strategies can potentially be used to achieve similar goals, rules-oriented policy makes more specific demands concerning the *internal* policies that another nation pursues, while results-oriented policy remains highly focussed on mandating specific *outcomes* in the balance of trade.

In practice of course, the strategies employed in trade negotiations may not fall into rules and results-oriented categories as easily as the hypothetical examples given above. Moreover, any large-scale trade agreement covering many sectors is quite likely to contain a combination of both rules and results-oriented elements. Even so, if we think of trade negotiation strategy as

occurring on a spectrum – with a purely results-oriented approach at one end and a purely rules-oriented one at the other, we can imagine a nation's trade strategies operating at numerous different places on the spectrum. As I argue below, the place where US policymakers have chosen to operate has altered significantly during the conflicts with Japan and China.

The US-Japan conflict has been characterised as an evolution from an initial attempt at rules-oriented strategy to a later embrace of results-oriented strategy. Both the MOSS and SII talks were originally conceived of as rules-oriented approaches focussed on securing policy reforms that would liberalise the Japanese economy (SFC 1989; Kunkel 2003). Yet the disappointing results of these negotiations produced an environment in which revisionist arguments about the need to pursue a different trade strategy towards Japan began to wield serious influence (Morris, 2011). Revisionists argued that given the stark differences in how the Japanese and American economies worked, it was impossible to ever get the Japanese to genuinely commit to free trade principles. The best that could be done was to extract firm commitments from the Japanese guaranteeing a specified share of markets for American goods and services. Prestowitz, a leading revisionist, and a former Commerce Department official capable of mounting an in-depth critique of US trade policy, put the point particularly strongly:

Our negotiations should always be for results. To negotiate over the procedures of a foreign culture in the hopes of obtaining an undefined open market is to court failure and frustration...We can negotiate market share or a specific amount of sales...we can negotiate anything identifiable and concrete. We cannot negotiate philosophy or public perception and should not try to. (1988, 322)

Johnson had similarly argued that 'a policy of pressuring Japan to alter its economic system to make it look more like the American system is doomed to fail' and that US negotiators would be better off focussing on the kind of 'managed trade' deals more amenable to the Japanese system. In making such arguments the revisionists claimed that such a policy would be much less intrusive on Japanese internal sovereignty and therefore much more likely to gain acceptance than demands for rule changes.

Such arguments came to carry significant weight in US trade policy making circles. As Raymond Ahearn - an official in the Congressional Research Service working on US-Japan trade noted:

It was like a revelation to those of us who knew nothing - that this was how Japan actually worked. We felt we'd been fools and ignorant not to have a better insight into how the economy worked. It doesn't work as all the neoclassical economists have argued in the past.
(quoted in Kunkel 2003, 152)

Similarly, the proliferation of voluntary export restraint agreements - which set prescribed shares of the US domestic market for Japanese firms not to exceed - solidified the growth of a results-oriented policy. According to officials, the effect of these actions was often to turn the MOSS and SII negotiations, formerly more committed to a rules-oriented approach, into a results-oriented process. With regards to the negotiations over supercomputers for example, one senior Bush administration official remarked:

The negotiations we did were rule changes but with a political understanding – never articulated in the way the 20 percent in semiconductors was – that they would start buying supercomputers...really it was not the rules changes; when we'd got back to talk to them it was: 'How many have you bought? How many are our firms?'
(quoted in Kunkel 116)

This was the approach that characterised the Clinton administration's negotiations with Japan, especially as seen in the Framework for a New Economic Partnership (SFC 1985,161-65).¹⁵⁰ Clinton's Commerce Secretary, Ron Brown, for instance, talked of the need:

...to end our American obsession with process. Our focus will instead be on results. Markets will be considered open, not when rules and regulations change but when we see that American products...have an equal opportunity to succeed in Japan (SFC 1985,11)

Thus, in the closing period of intense US-Japan conflict a results-oriented negotiation strategy had hardened into something of a conventional wisdom.

¹⁵⁰ This is not to say that there were not important exceptions to this. In particular, in 1997 the US did go through the WTO to enforce significant changes in Japanese intellectual property law.

Given the continuity between the US-Japan and US-China conflict, it is noteworthy that in the US-China trade war, policymakers have largely eschewed the focus on results-oriented policy that came to define the hard-line trade strategy towards Japan. Instead, it is widely agreed that the core of US demands and the central sticking point in the more recent trade war negotiations, has been the establishment of a set of enforceable rules curtailing China's ability to favour domestic firms through its industrial policy (Bown and McCulloch 2016). As US Trade Representative, Robert Lighthizer - the chief architect of trade policy in the Trump administration - emphasised at a 2019 Congressional hearing:

We [the United States] can compete with anyone in the world but we must have rules, enforced rules that make sure market outcomes, not state capitalism and technology theft, determine winners.
(WMC 2019, 4)

This theme recurs in Lighthizer's testimony:

How I would define success is number one, enforceable. Number two, real rules on forced technology transfer...that's how I'm going to determine whether this [potential] trade agreement is a success.
(WMC 2019, 41)

This focus on enforceable rules and on changing the way policy operates in the Chinese economy is very different rhetorically than the focus on results that characterised the later stage of US-Japan conflict (Honglin Zhang 2020). A greater emphasis on rules rather than an exclusive focus on results has also, to some extent, been evident in the progress of Sino-American negotiations during the trade war. It has been noted, for example, that the draft agreement that came close to being signed after the G20 summit in Buenos Aires in December 2018, included no fewer than 60 specific demands for changes in the Chinese legal system, a significant number for an agreement of around 150 pages (Davis and Wei, 2020, 14). It is also noteworthy that a potential deal ultimately came unstuck when US negotiators refused to accept China's reluctance to cement these changes in legislation (Davis and Wei, 374).¹⁵¹

¹⁵¹ According to Davis and Wei, Lighthizer was obsessed with extracting legal changes, believing they 'would signal a deeper commitment by Beijing and make it tougher for Chinese judges to use phoney reasoning to rule against US companies' (Davis and Wei, 2020, 19).

When the ‘*Phase One*’ agreement was reached in January 2020, most media attention naturally focussed on the Chinese commitment to purchase at least \$200 billion of US goods and services over the next two years. Yet, much of the agreement was focussed less on purchases, and more on the agreement of new rules and principles governing intellectual property law in China and restricting the Chinese state’s capacity to encourage technology transfer from foreign to domestic companies (Setser 2020). It is certainly clear that the purchases were considered a low priority by USTR, Lighthizer for instance, made the point of always scheduling purchases as the last agenda item in negotiations, meaning they frequently were not discussed (Davis and Wei, 2020, 321). The section on currency manipulation and exchange rates meanwhile, rather than directly specifying a value for the Renminbi as might have been expected in a results-oriented strategy, instead insisted on a range of measures for China to ‘achieve and maintain a market-determined exchange rate regime’ (*Economic and Trade Agreement between the Government of the United States of America and the Government of the People’s Republic of China*, 2019, 51). A final important component and the most distinctive element of the deal according to experts in international trade law, has been a novel enforcement mechanism. Within this, should either party maintain that any element of the deal is not being acted upon, a 90-day consultation occurs, following which, if no resolution is found, the deal would be void and any tariffs which had been removed by the agreement would be reinstated. The emphasis on this procedure, which Lighthizer referred to as an enforcement mechanism ‘with real teeth’, indicates how US negotiation strategy has not only been heavily oriented towards rules but also to the development of *mechanisms* by which those rules could be enforced (Lawder 2020).

The *Phase One* agreement is only intended as the first stage of a larger agreement. Most US tariffs imposed during the trade war therefore remain and will only be removed following a *Phase Two* deal, though there is some scepticism from observers as to the likelihood of this second agreement ever being reached (S&P Trade Analysts, 2020). It is nonetheless worth noting that the proposed agenda for these negotiations - focussing heavily on curtailing Chinese state owned enterprises and industrial subsidies - seems to move further in a rules-oriented direction. The fact that considerable Chinese concessions in terms of purchases were not sufficient to end the trade war and that the Trump administration committed to keeping most US tariffs in place until the completion of a more rules-oriented *Phase Two* agreement, is, in itself, a significant indication of that administration’s emphasis on rules-oriented policy.

It seems clear then that despite the continuities between the US Japan and US China conflicts, the pendulum of US negotiation strategy has swung significantly back towards rules-oriented policy compared to the results-oriented strategy that prevailed in the latter stages of the US-Japan conflict. Indeed, so far reaching have been the changes to the Chinese economy demanded by US negotiators it seems unlikely that the Chinese would ever agree to them. As Christopher Johnson, a former China analyst for the CIA remarked, ‘if the assessment is that China will realise the error of its ways and embrace market economics, that’s laughable. They will double down on industrial policy’ (quoted in Davis and Wei, 2020, 32).

Why then would the US move towards a set of demands that offer little prospect of success? How might these different strategies be understood? It is easy to assume the answer must lie in the personality of Donald Trump and his idiosyncratic views on trade. Trump, by all accounts, is a convinced mercantilist, genuinely committed to the idea that trade deficits harm the American economy and that tariffs are economically beneficial (Miller 2018). By contrast, during the Reagan, Bush Senior and Clinton administrations, it is certainly arguable that these commanders-in-chief were not themselves deeply concerned with trade imbalances and were simply responding to political pressure to take some action (Destler 2005; Irwin 2017). Yet, while this may explain the more uncompromising tone of US strategy under Trump, it is less clear why it should explain a shift from results to a rules-oriented trade strategy. Indeed, Trump’s strong focus on bilateral trade imbalances and his interest in securing more purchases of American products seems to lend itself to a more results-oriented approach.

Another possible interpretation is that many of the rules-oriented demands of the US negotiators during the US-China trade war have been made in the full realisation they were unlikely to be accepted. Given the protectionist instincts of the Trump administration, deep scepticism towards Chinese intentions and a broader desire to decouple the US and Chinese economy due to geopolitical concerns, it is possible some US officials were not overly concerned with the success of negotiations and that the whole process of the Section 301 investigation and talks were a kind of ‘game’ to justify the imposition of high tariffs. From this perspective, the adoption of a rules-based strategy as opposed to a results-based one makes considerable sense. Such a strategy, demanding fundamental reforms to the Chinese economy, would be less likely to be accepted by the Chinese and would allow the US to fight a continuing trade war on the firm grounds of standing up for free trade principles, rather than on the murky ground of

insisting on managed trade. In this way, perhaps the fundamental factor that distinguishes the US-Japan and US-China conflict is that in the former case even the most hawkish US officials were seeking a solution to perceived problems that would prevent the two economies from fundamentally decoupling. The latter case, by contrast, might perhaps be more characterised as the US wanting an excuse to decouple.¹⁵²

External factors

Japan as an ally versus China as a rival

One plausible interpretation for the different US negotiation stances might lie in the different geostrategic position of the United States vis-a-vis China, as opposed to Japan. While Japan was a US ally, dependent on a US security guarantee and pivotal to US defence strategy in Asia, China is historically a rival and, in the language of the US defence establishment, the closest ‘near-peer competitor’ to the US (Meijer 2016; Garcia and Iwahara 2019). It is perhaps understandable, therefore, that American policymakers might be more alarmed about the prospect of Chinese dominance in high-tech strategic industries than they were at that prospect with Japan, and, therefore, opt for a different strategy to contain China. Such an interpretation fits well with the fact that during the US Japan conflict, a results-oriented strategy was often advocated based on a belief that it would prove ‘less confrontational’ and therefore produce less strain on US-Japan relations than a rules-oriented approach (Kunkel, 2003,162)¹⁵³ It seems reasonable that such considerations would carry more weight given Japan’s status as the key American ally in East Asia and thus this could very well have played a role in pushing US strategy towards Japan in a more results-oriented direction.

¹⁵² Certainly, some of Lighthizers remarks in congressional hearings speak to this possibility. In a Senate hearing on the eve of the US-China trade war for instance, Lighthizer commented ‘I think at the end of the day, no matter what I do...China is still going to be a market driven communist country... So, they are not going to change their attitude on these things, but we can at least be in a position where U.S industry is not wiped out because of it’ (SFC, 2018,9). Implicit within such remarks is an understanding that US policy may not succeed in effecting drastic changes to China’s economic system, but that if it should not succeed then decoupling would be preferable to continued trade.

¹⁵³ Concerns had emerged by the 1990s that US negotiators were ‘asking too much’ in demanding specific rules changes from Japan (SFC, 1990). As Senator Daniel Patrick Moynahan put it ‘one of the more remarkable developments of the insistence...that there be some response from Japan to what we perceive as inequities has been our involvement in their affairs at a level we would never accept in the other direction (SFC, 1990, 4) It therefore seemed to many that a more pragmatic focus on results would be less intrusive to the Japanese economy.

A case of policy learning?

A second interpretation to discuss is how far the return to a more rules-oriented approach in the US-China trade war reflected a case of policy learning from the earlier experience with a results-oriented strategy. After all, many accounts of the US experiment with results-oriented strategy towards Japan interpret it as a disappointing and unsuccessful innovation (Flamm 1996; Uriu 2009). It has been argued that moving from a position based on recognisable free trade principles to a bald-faced advocacy of managed trade, damaged American credibility and legitimacy both at home, with Japan and in the broader international landscape, and meant that many of the more fundamental American complaints with Japanese industrial policy could not be addressed. Moreover, despite the predictions of Prestowitz, the adoption of results-oriented policy corresponded not with a de-escalation of tensions, but rather with the Japanese becoming increasingly alienated and aggravated by American designs.

It is admittedly hard to disentangle the various factors that contributed to the more forceful Japanese response. Resentment had been growing at the constant American complaints on trade; a sentiment crystallised in 1989 by the publication of the polemical essay *'The Japan that Can Say No'* (Uriu 2009, 112). This popular feeling in Japan no doubt also contributed to Japan's somewhat less conciliatory tone in the latter period of the US/Japan conflict. Yet, it is also the case that a perception of US results-oriented demands as particularly unreasonable may also have been an important factor. Given this, it is possible that the retreat from results-oriented policy since the US-Japan conflict reflects a rational calculation on the part of US policymakers that this policy had, in fact, failed.

Chinese and Japanese industrial policy differences

A third interpretation of the difference between the US negotiation strategy towards Japan in the 1980s and China today is that it is reflective of key differences between Chinese and Japanese industrial policy practices. In recent years, an important research programme has emerged comparing the experience of Japan and China as 'late industrialising economies' and considering the relationship between the industrial policies of these two states (Pekkanen and Tsai 2006; Huang 2013). This research has demonstrated just how closely related Japanese and Chinese industrial policies are, and, indeed, how Chinese policymakers actively used Japan as a model in crafting industrial policies (Heilmann and Shih 2013). Yet they have also identified several important differences of potential relevance to US strategy.

One key difference is the prominent role of the Chinese Communist Party (CCP) and of State-Owned Enterprises (SOEs) in China's economy. The prevalence of SOEs, which are concentrated in strategic sectors such as energy and finance and continue to rule over the commanding heights of the Chinese economy, stands in some contrast to Japan, where, with some notable exceptions, SOEs did not play a central role in economic development (Lardy 2019). Still more distinctive is the role of the CCP, which has a pervasive influence on all large Chinese firms, state and private, and which can often direct business activity through informal channels when formal ones are unavailable (Heilmann and Shih 2013).

A second important difference between Chinese and Japanese industrial policies concerns the degree of centralisation in decision making. As a unitary state with weak local government, Japan's industrial policies were largely organised through the central government bureaucracies, especially The Ministry of International Trade and Industry (MITI) (Johnson 1982). While it is true that the Chinese government employs five-year plans to direct industrial policy, and the *State-owned Assets Supervisory and Administrative Commission of the State Council* (SASAC) oversees the activities of China's largest SOEs, such procedures are, in the words of one observer, 'actually designed to preserve the high degree of institutional leeway and local autonomy that typifies China's highly decentralised government' (Melton 2015, 3). For instance, many SOEs are managed, not at the central, but at the regional and sub-regional level, and while five-year plans direct the broad course of industrial policy ambitions, they allow local government's considerable discretion in how they pursue these goals (Heilmann and Shih 2013).

A third difference concerns how Chinese and Japanese industrial policies have approached Foreign Direct Investment (FDI). As noted in testimony before the USCC, 'China is today a considerably more open economy than Japan was during its high growth phase' (Hirson 2019, 6). Highly suspicious of foreign companies in Japan, the Japanese government created strong barriers to inward FDI, preferring to build up national champions through solely Japanese capital (Mireya 2005). The Chinese government has, by contrast, chosen to selectively support FDI in a large array of sectors, leading to larger inflows of foreign investment than Japan experienced (Tao 2005). In 2018, for example, China's inward FDI stood at 1.495 percent of GDP, while in 1985, perhaps the high point of US-Japan tension, Japan's inwards FDI ratio stood at a mere 0.45 percent of GDP (Bown 2019). China has combined this selective openness

with a range of measures designed to facilitate technology transfer from western companies. The use of joint venture requirements, which necessitate investing firms to partner with existing Chinese companies, has been an important tool in this regard, as has a loose and (to American eyes) unreliable system of intellectual property rights (Segal 2011). Again, this differs significantly from Japan, which tended to encourage licensing agreements as opposed to joint ventures (Bown and McCulloch 2009).

So, while there is a clear lineage from Japanese to Chinese industrial policies, there are also substantial differences. Significantly, these differences may have made it more difficult for the US to confront Chinese industrial policies in a results-oriented way, and may, therefore, have pushed the US into a more rules-oriented approach. Japanese industrial policy was geared towards protecting the home market, to give national champions a secure base from which they could develop and then contest international markets. The central goal of US results-oriented strategy – to demand a share of the Japanese market be reserved for US firms – would have been highly disruptive to that. Chinese industrial policy, meanwhile, has relied on selective openness to encourage US firms into China and then employed a variety of measures to facilitate technology transfer to Chinese domestic firms. It is far less clear how a simple results-oriented policy, requiring shares of Chinese markets be given to US firms, would arrest this process in the same way. Indeed, making it easier for US firms to invest in China potentially accelerates the process of technology transfer. This dynamic suggests that only a rules-oriented policy, designed to force China to dismantle those policies enabling technology transfer, has potential for success.

It is also possible that the relatively decentralised character of Chinese industrial policy making also mitigates against a results-oriented policy. While the US could negotiate with the Japanese central government with reasonable assurance that agreements over market share would be honoured, the fact that regional governments in China have such a high degree of autonomy means these guarantees are less secure. For instance, in the case of the global oversupply of steel due to Chinese subsidies - a major irritant for the US - there is good evidence that the glut was produced, not by direct decisions from the Chinese central government, but by the independent actions of regional governments (Skonieczny 2018). Such a dynamic significantly complicates the prospects for US-China negotiations on industrial policy. It also breeds considerable mistrust on the US side, with the suspicion lingering that decentralised

industrial policy works as a deliberate mechanism to avoid enforcing agreements. In a recent Congressional hearing on US-China trade, for instance, Congressman Kevin Brady commented on the need for future agreements to be:

...enforceable at all levels of China's governance because we know the play they've run before is to pretend to protect intellectual property at the central level but not at the provincial, or local, or court and communities' level.

(WMC 2019a, 82)

It appears then, that the different character of Chinese versus Japanese industrial policies may have played an important part in shifting the preferred strategy of US hardliners from a results-oriented approach to a rules-oriented one.

...

Based on the three factors outlined above, it seems possible to build a reasonable interpretation - from a rational actor perspective - of the movement in US trade strategy back to rules-oriented policy, compared to the results-oriented strategy of the later US-Japan conflicts. The difference in geo-strategic relationships, the somewhat disappointing performance of results-oriented policy against Japan, and the greater obstacles in conducting a results-oriented strategy based on certain distinctive features of Chinese industrial policy combined, might well account for a shift in the thinking of US trade policy hawks back in the direction of rules-oriented policy. These geostrategic considerations, however, have not operated alone. Instead, as is discussed in the next section, they have cohered with and reinforced certain structural changes in the US trade policy apparatus

Internal Factors: the changing nature of the US trade policy apparatus

While all three of the above rational actor interpretations likely play a role in explaining the choice between rules and results-oriented policy, an alternative approach may be to look to changes in the US trade policy apparatus itself. Although the US Constitution originally awarded Congress the power to regulate trade, a series of legislative acts over the twentieth century have seen trade policy increasingly delegated to the executive branch (Irwin 2017). The US trade policy apparatus, therefore, primarily consists of various agencies within the executive branch that implement trade law and advise the president on foreign economic policy.

The first of these, USTR, was established in 1962 to conduct trade negotiations with foreign countries, and, in 1974, was given added responsibilities to investigate ‘unfair’ or ‘unreasonable’ foreign trade practices (Destler 2012). With a directive to bring about the opening of foreign markets, and a need to maintain close contact with US firms disadvantaged by foreign trade barriers, the USTR has traditionally been the agency most in favour of aggressive market opening negotiations (Dryden 1995).

Working in close coordination with the USTR is the Department of Commerce - responsible, among other things, for promoting exports and primarily administering the US system of trade remedy law. Its close contact with both exporters and import competing firms has made the Department of Commerce the agency most keen to encourage export purchases from trading partners and the most sympathetic to protectionist measures (Kunkel 2003; Destler 2012). Given its close relations with US exporters and with import-competing interests, Commerce has tended to share with USTR a ‘hawkish’ approach to trade.

A third critical actor in the US trade policy apparatus is the Department of the Treasury - responsible for overseeing foreign investment into the US and advising the president on international monetary and financial issues (Destler 2012). Having a remit much broader than trade - in contrast to the relatively narrower focus of the Department of Commerce and USTR – and with core constituencies in the financial sector, the Treasury is a traditionally more ‘dovish’ centre of power in the US trade policy apparatus and is typically wary of disruptive strategies likely to do harm to global financial markets. Its concern for international monetary stability has made it the central actor in US trade policy when it comes to issues such as currency manipulation (Cohen, Blecker and Whitney 2003).

Finally, due to its general responsibility for directing foreign policy, the US Department of State has also often been a key actor in US trade policy (Destler 2012). The State Department has traditionally been the centre of dovish approaches to trade, being far removed from US producer interests harmed by globalisation and focussed on maintaining good diplomatic and security relations with foreign powers (Cohen 2000). It has been this department’s role to resist calls for a more forceful trade policy emanating from the Department of Commerce or the USTR, on the grounds that it would harm important US strategic relations (Kunkel 2003). This perception of the State department was forcibly expressed by the Hawkish senator John Danforth who

complained regarding State's role in the SII talks 'The State Department has been notorious...for viewing our trade problems as our own fault and for considering trade as the last thing on our agenda' (SFC, 1989, 14)

These four power centres have been central actors in the US trade policy apparatus, although many others (Department of Agriculture on agricultural related issues, or the Pentagon on security related issues, for instance) come to the fore at specific times (Kunkel 2003; Cezar 2017). Generally, the interactions between these four power centres have been depicted as a struggle between two coalitions; a more 'hawkish' coalition represented by Commerce and USTR - which has advocated a strong focus on opening foreign markets and protecting US commercial interests, and a more 'dovish' coalition represented by Treasury and State (Cohen, Blecker, and Whitney 2003; Destler 2005; Cezar 2017). This is not to say that Commerce and USTR have continually adopted more aggressive or protectionist stances on trade policy, on the contrary, at various points in US trade policy history, they have played a decisive role in leading liberalisation efforts and have supported conciliatory negotiating stances (Chorev 2007). Nonetheless, when large trade imbalances have created strong protectionist pressure in US trade politics, it has generally been the case that USTR and Commerce have been most likely to 'go hawkish' and lead calls for a more aggressive trade policy (Irwin 2017).

This Hawk/Dove dichotomy certainly holds some sway, it is undoubtedly the case that during the 1980s and 1990s State and Treasury maintained a significantly purer commitment to free trade, while such commitments were much more swiftly sacrificed by Commerce and USTR (Brown, 1994, 62-6; Kunkel, 2003 89-91). However, the Hawk/Dove distinction arguably conceals as much as it illuminates, and it may consequently be worth reviewing in slightly more detail the orientation of these different power centres.

One particularly important and neglected point here concerns the differing perspectives of Commerce as opposed to USTR. As the two traditionally 'hawkish' agencies, such differences in perspective have traditionally been obscured and, as I argue below, this has been accounted for by the fact that historically USTR was very much a junior partner to Commerce. Nonetheless there are subtle differences that it is useful to recognise. Commerce - as an agency with US producers and exporters as a core constituency - has had the most interest in policy options that reliably and dependably guaranteed market shares for these producers. Moreover,

compared to the USTR, Commerce has had less of a specified role in investigating foreign trade practices and industrial policy and therefore less incentive to support a rules-oriented strategy focused on the details of foreign trade practices through Section 301 investigations. As a result, I argue, Commerce was particularly inclined to support ‘results-oriented strategy’ as promulgated by revisionists during the mid-1980s and 1990s. USTR, however, whilst having similarly close connections to US producers has also been historically imbued with a strong sense of mission. Charged with opening foreign markets and defending the US position in international negotiations, USTR officials have, in Dryden’s words, traditionally seen themselves as ‘crusaders for free trade’ (1995,). As a relatively small and contained agency, it has also experienced the conditions that Drezner identified as likely to lead an agency to maintain ideological commitments over time (2000). Consequently, although USTR officials often join Commerce in being more supportive of protectionism, they see it as a way to leverage US market access to open markets abroad. They also tend to be more inclined towards rules-oriented policy, centred on challenging structural barriers to trade in foreign economies.

Another important point to make about the US policy apparatus concerns the role of the State Department. While generally characterised as a dovish actor during the US-Japan conflict, the State Department’s orientation within the US trade policy apparatus more fundamentally can be described as linking trade to broader diplomatic and geopolitical objectives. As a result, the issue highlighted earlier - that Japan is a key US ally and China an emerging rival – is of the greatest potential salience to the State Department. In the case of Japan, the interests of State did, therefore, naturally lie in preventing trade tensions from doing excessive damage to diplomatic relations. In the case of China however, State arguably has a strong incentive to support decoupling of the US and China economies for geopolitical reasons.

When analysing the bureaucratic dynamics during the US-Japan conflict, in comparison to the recent US-China conflict, one of the most notable features is the centrality of Commerce and Treasury in managing the conflict. For example, the centrality of the Treasury reflected just how much the issue of currency loomed over US-Japan relations in the period leading up to and proceeding the Plaza Accord. It was widely believed that addressing the overvalued dollar and extracting commitments from Japan regarding currency manipulation was central towards addressing the trade imbalances (Frankel, 2015). Alongside this, stabilising the highly uneven and asymmetrical capital flows (huge Japanese investment in the US and minimal American

FDI in Japan) was recognised to be a critical issue. Naturally, the Treasury was the critical actor in the negotiations on this subject. In the Yen/Dollar negotiations established after 1984, it was the only permanent US representative (with Commerce only occasionally being involved and with State and USTR being completely excluded). So high was the priority placed on the exchange rate issue, it in many ways directed the course of the US-Japan relations more generally. For some officials in Commerce and USTR - more concerned about Japanese regulatory barriers and wider industrial policies - the focus on the currency issue and the deference given to the Treasury agenda was seen as an obstacle to progress. Yet the picture of the Treasury as exclusively focussed on monetary issues, if it was ever true at all, would certainly change after the Plaza Accord, when Treasury officials became convinced that to stabilise capital exchanges and increase American investment in Japan, it was necessary to address the regulatory barriers which kept Japan closed to foreign investors.¹⁵⁴ Treasury officials were therefore deeply involved in the SII talks on liberalising Japan's economy.

The centrality of Commerce meanwhile, reflected the fact that - of the two agencies most directly concerned with trade - Commerce and the USTR, USTR was clearly the junior partner (Dryden 1995; Destler 2012). Being both larger, and more established, Commerce also benefited from a traditional sense of resistance within the Executive to the USTR, on the basis that it represented a Congressionally appointed component within the Executive Office of the President (Destler 2005). This led to proposals from the Reagan administration that the USTR should be abolished as an independent entity and merged with the Department of Commerce, a proposal which was only dropped due to strong opposition within Congress and due to the personal dynamism of USTR Head William Brock (Destler 2012). As well as enjoying less secure relations with the White House, the USTR in the 1980s also had a relatively limited staff, with only around 80 permanent employees, and was widely judged incapable of conducting much substantial economic analysis without relying on other agencies (Brown 1994, 125). USTR also spent much of the early 1980s embroiled in a battle with the Treasury over pre-eminence in international financial negotiations; a battle which drained the agency of political capital and made them reliant on support from Commerce (Brown 1994). All these factors combined to ensure that USTR was not a particularly powerful player within the US trade policy

¹⁵⁴ The interlinkages between regulatory issues in the Japanese business system and the broader issue of financial reform were most apparent regarding the 'keiretsu' the distinctive Japanese business consortiums each of which centred around a large bank and which were a major topic of the SII (Brown, 1994; Kunkel, 2003).

apparatus for much of the 1980s; a fact clearly recognised by observers. Prestowitz, for instance, when describing his time as a US trade official, noted:

It became clear that the Office of the U.S Trade Representative was primarily a coordinator. Its limited staff and its need to obtain the cooperation of the other departments and agencies prevented it from doing more than superficial analytical work or from taking a position much different from the majority view. (Prestowitz Jr. 1988, 134)

As a result of USTR's weakness, the agency was often quite deferential to the agenda of the Department of Commerce, and it was Commerce officials that often took the lead in pushing the hawkish agenda throughout the 1980s. In the MOSS talks which dominated US-Japan trade relations in the crucial years of 1984-1985, it was Commerce officials who played a leading role, with Commerce Undersecretary, Lionel Olmer leading the US negotiation team in the critical telecommunications sector talks (Prestowitz Jr. 1988, 297). Commerce also spearheaded the expansion of MOSS into auto-parts after 1986 (Kunkel, 2003, 106). Moreover, after the disappointing results of the MOSS negotiations, it was Commerce Secretary, Baldrige who headed a new 'strike force' to review US trade policy strategy which would influence the American approach to Japan for the next decade. As Kunkel points out, this was 'an anomaly in that standard practice was for a USTR official to chair any inter-agency policy group' (2003, 94). Finally, Commerce was heavily involved in the negotiation of the US-Japan Semiconductor Agreement of 1986.

This agreement, often described as a landmark in the move towards results-oriented trade with Japan, involved both a formal system to control the price of Japanese semiconductors in the US and third markets and an implicit agreement that Japan would ensure 20 percent of the Japanese semiconductor market would be supplied by American firms (SFC 1991, 24). The influence of Commerce featured heavily in the agreement. Although US-Japan talks on semiconductors had begun after a USTR initiated Section 301 investigation into Japanese support for semiconductors, it was a concurrent Commerce initiated anti-dumping investigation which provided the US crucial leverage throughout the process (SFC 1991, 65- 69). Commerce officials such as Prestowitz were highly involved in the negotiation and the result placed importance on the role played by Commerce; specifically, it was Commerce which would be responsible for monitoring the price of semiconductor exports and thereby ensuring the Japanese adhered to the agreement (Irwin 1996, 10). Although throughout the process USTR officials had

deferred to Commerce and its focus on results, the ambiguity some of these officials felt is well captured by the reflections of USTR Deputy, Michael Smith:

I never view this [the semiconductor agreement] as the proudest moment in USTR history...because we violated the principles USTR was in favour of. We had been battling...for years on domestic and export performance requirements and that sort of stuff. And here we were, in a way, part of that managed trade ethos. (2003, 102)

While the State Department was also an important voice in shaping policy towards Japan, its core agenda was mostly confined to ensuring tensions over trade did not damage the overall US Japanese strategic relationship. Beyond this, State officials tended to defer to the Treasury. The close alignment between State and Treasury reflected how both departments in the Reagan years 'shared an almost messianic faith in free markets' (Brown, 1994, 124), as well as the frequent revolving door of senior leadership. Secretary of State, George Shultz, for example, had been Treasury Secretary in the Nixon administration, and James Baker - the Treasury Secretary who negotiated the Plaza Accord - would go on to head the State Department. Certainly, the more hawkish officials in USTR and Commerce viewed State as distinctly 'soft on Japan'. As noted by one official 'the State Department is owned by the Japanese.... They would totally cave on us' (quoted in Kunkel, 2003, 54).

US strategy towards Japan, therefore, was driven - to a large extent - by the Commerce Department and the Treasury. Moreover, while it would be inaccurate to describe this process as involving a straightforward division of labour between international monetary issues handled by Treasury and issues related to trade and regulatory barriers handled by Commerce, the heavy focus of the Treasury on Yen-Dollar issues, certainly gave Commerce the initiative in crafting strategy during both the MOSS and SII talks as well as in other negotiations.

The pattern of US strategy towards Japan, therefore, in many ways reflected the centrality of Commerce and the Treasury. Compared to Commerce, Treasury officials were less supportive of results-oriented policy, a stance that reflected a culture of strong allegiance to free market ideas (Brown 1994; Liu and Woo 2016). Yet, given their focus on the Yen/Dollar negotiations, they in large part respected Commerce's right to take the lead on other negotiations. Officials in the State Department, meanwhile, became convinced by the argument that - because it moved

the focus from reforming the Japanese economic system - results-oriented policy would be less disruptive to US-Japan relations (Kunkel 2003). The case of the US-Japan conflict then, saw a gradual evolution towards an aggressive, results-oriented policy that lasted until the mid-1990s when Japan's 'lost decade' and strong American growth reduced the intensity of US concerns towards Japan (Uriu 2009).

If we now compare the above case with the bureaucratic dynamics behind the US-China trade war the first thing to note is that the USTR has become a much more central actor. Whereas USTR had been a junior partner to Commerce, the *Trade and Omnibus Competitiveness Act of 1988* clarified and expanded its separate role in US trade policy. An early indicator of this can be seen by the fact that while the 1986 US-Japan Semiconductor Agreement had been led by Commerce, the 1991 renegotiated agreement was led by the USTR and ultimately signed by USTR head Carla Hills. Reflecting the earlier ambivalence about that agreement expressed by USTR officials, Hills commented that she had been uneasy about the market-share arrangements because 'once you say you have to share this percentage...you get yourself backed into a non-defensible economic position' (Kunkel, 2003, 119). The renegotiated agreement chipped away significantly at earlier, results-oriented elements; removing the Commerce administered floor pricing arrangements which had been in the original deal and phasing out the guaranteed 20 percent market share after 1992¹⁵⁵.

The creation of the WTO in 1994, with USTR as the main voice for the US within the organisation, further elevated the agency's role (Dryden 1995; Destler 2012). Thus, what had once been an asymmetrical relationship between Commerce and USTR gradually developed into a much more co-equal one. By the time of the US-China trade war this had evolved to the point where Robert Lighthizer, Head of USTR, has clearly been the central figure in the negotiations, with Commerce Secretary Wilbur Ross, a marginalised and sometimes directly excluded figure.¹⁵⁶

¹⁵⁵ USTR achieved this in spite of the fact that in the Senate Finance Committee hearing on the renewal of the Semiconductor agreement there was considerable emphasis on how the 20 percent market share target must be retained (SFC 1991).

¹⁵⁶ Ross's position in the negotiations after the initial Commerce led 'comprehensive economic dialogue' was judged a damp squib and he even suffered the indignity of having to wait outside during negotiations between top US and Chinese leaders (Davis and Wei, 2020, 181-4).

Secondly, given the different geopolitical situation, the stance of the State Department in the US-China trade conflict is significantly altered. In the US-Japan conflict, State's overriding concern was with preserving good relations with a critical ally. It can therefore be regarded as among the more 'dovish' actors linked to the trade policy apparatus. Given that China is instead a rival, whose dominance of strategically important high technology industries constitutes a threat to the US, the State Department has been quite supportive of action against China. This engagement by State has significantly affected the dynamics of the US-China trade war.

Treasury, unlike Commerce has not had its influence eroded excessively by the rise of the USTR. Yet, the fact that in the US-China trade war, currency issues have been much less important, has given the Treasury a less preeminent position than it enjoyed in the negotiations with Japan. Moreover, the more independent posture of the State Department has meant the Treasury has less allies with which to assert its perspective. To these factors must be added the fact that the US-China trade war has largely been managed through a Section 301 investigation into Chinese intellectual property infringement; an action channel over which the USTR has almost exclusive control. This has given the USTR strong initiative to shape the agenda of US-China negotiations, also giving them a voice on currency issues that were included in the main negotiations. This contrasted with the Japan case, where the separate track set up by the Yen/Dollar talks caused, as Brown noted, 'effective bifurcation of trade talks...Treasury controlled financial services; merchandise and agriculture were left to the USTR' (1994, 121).

The dominance of USTR is salient because compared to Commerce, USTR is less inclined towards a results-oriented policy and more towards a rules-oriented direction. The fact that the agency exists in large part to investigate foreign trade practices means that its status and importance is best advanced by focussing on the *rules* governing trade relations. As a consequence, in the US-China negotiations USTR has effectively used its agenda setting powers to place a rules-oriented approach at the centre of US strategy; zeroing in on intellectual property issues, marginalising as far as possible the purchases component of the negotiations and insisting that the bulk of US tariffs remain in force until issues of industrial subsidies and state-owned enterprises are addressed.

Meanwhile, the State Department has been building an infrastructure aimed at curtailing China's influence on global supply chains, through the establishment of the *Economic Prosperity*

Network (EPN). This alliance, including key US partners in the Pacific region, aims among other things to encourage the reshoring of firms away from China through tax incentives and regulatory changes. Whilst spearheaded by State, the EPN has also been strongly supported by Commerce which, marginalised in the main US-China negotiations, arguably sees this as a major way of supporting US exporters and domestic producers. Working in tandem with the tariffs imposed through USTR's investigation, the EPN aims to shift global investment patterns in a way that reduces China's centrality to global supply chains. In summary, it seems likely that the greater activism of USTR and State in the US-China trade war has supported a shift in US strategy - back in the direction of rules-oriented policy and in a much more uncompromising direction.

Conclusion

This paper has compared US trade strategy during the conflicts with Japan in the 1980s and 1990s and China today, exploring how and why US policymakers in these conflicts struck different balances between rules and results oriented approaches. I have argued that while US-Japan conflict saw a gradual movement from "rules oriented" to "results oriented" strategy on the part of US policymakers, the balance of US strategy towards China has remained, and is likely to remain, rules oriented. This I have argued reflects the dominance of the rules oriented USTR, compared to the more results-oriented Commerce Department, in the contemporary US trade policy apparatus. In making this argument, the article contributes to a more nuanced understanding of the dynamics and different perspectives within the US trade policy apparatus. On occasions these dynamics can be reduced to a battle between "hawks" and "doves" with USTR and Commerce aligned on one side and State and Treasury on the other (Cezar, 2017). Yet there are important differences in orientation between USTR and Commerce and this can allow for multiple different partnerships and alliances to form within the US trade policy apparatus. The argument of the paper also has implications for the future of US-China relations, suggesting that if the US trade policy apparatus remains focussed on rule changes, Chinese attempts to appease the US through largescale purchasing arrangements are likely to meet limited success.

Reflecting on some of the bigger picture issues in terms of US-China relations, it is now widely recognised that Washington is facing a "China reckoning". Hopes that through engagement and

dialogue China could be induced to abandon its state-capitalist model (and even its authoritarian political system) have been largely disabused and a more forceful and confrontational approach appears to enjoy widespread bipartisan support. Where this new consensus leaves trade policy and Trump's still unfinished trade war is uncertain. Certainly, President Biden and his USTR, Katherine Tai, have not yet committed to rescinding the tariffs imposed by the Trump administration and Biden's *Made in America* suggests a willingness to continue the "decoupling" with China that Trump's trade war began. Regardless of what the future holds, the sober truth remains that, as Foot has commented 'the different character of US-China versus US-Japan ties mean that any damage done by the trade-related tensions will be much more difficult to repair' (Foot, 2017).

It seems likely therefore that the world faces a prolonged period of heightened economic tension between the US and China. This tension as well as calls for decoupling, may reinforce the rules-orientation of US trade strategy. One of the reasons that results-oriented trade policy held an appeal for many Japan hawks in the 1980s and 90s is that it offered a way to be "tough on Japan" while still preserving a commercial relationship which even ardent revisionists recognised was important for geopolitical reasons. An essential difference today is that China's status as a rival, alongside the difficulty of integrating so large an economy within the global system, means many China hawks would *prefer* decoupling to continuing trade on what they regard as fundamentally imbalanced terms. From this perspective, the only options are structural reforms of the Chinese economy, or the scaling back of economic ties. In achieving these objectives, a rules-oriented strategy may be of use either to extract reforms, or failing that, to justify tariffs and economic decoupling. In this context, a results-oriented strategy has little of the appeal it had for some policymakers during the economic tensions with Japan.

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Conclusion

In this concluding section I wish to put the argument of this thesis into perspective, critically reflecting on what I see as its strengths and limitations and highlighting avenues for further research. I begin with a brief review of the core claims - made across the four papers - and what makes them distinctive. I then discuss some of the ways this current argument may be regarded as incomplete, outlining what I see as necessary next steps to a more complete view of American anti-developmentalism. Finally, I conclude with a broader and more speculative discussion concerning the place of anti-developmentalism within the Trump administration (2017-21) and the possible implications of this for the future.

A brief review of the argument

To recap then, the thesis has traced the emergence of a new anti-developmental policy order within US foreign economic policy aiming to better understand how this order related to the broader emergence of a neoliberal policy paradigm. Whilst acknowledging that anti-developmentalism is inextricably linked to neoliberalism it has disputed accounts that see it as intelligible in purely these terms (Murdaco 2016; Nymalm 2017; Wraight 2019). Instead, it has argued that anti-developmentalism resulted from the reassociation of liberal and developmentalist ideas, both of which have deep roots in American political development. This argument was developed in the four papers as follows:

- In the first paper I sought to provide a conceptual basis for my argument sketching a basic theory of ideational reassociation which might explain, among other things, how the introduction of founding assumptions from one paradigm into another can lead to a process of ‘adaptive problem solving’ in which new, previously unanticipated goals and policy prescriptions emerge.
- The second paper aimed to bolster the claim that the US has had a long developmentalist tradition culminating in the establishment of a ‘kind of’ developmental state in the industrial policy debate of the 1970s/80s. I argued that this state was a composite of three historical developmentalist orders and that the mismatch between them has made

open coordination of US developmental state-building difficult and hard to understand. This, I argued, set the scene for the industrial policy debate of the 1980s.

- In the third paper, I drew on the theoretical framework provided in paper one and the historical narrative provided in paper two, to offer a new interpretation of the industrial policy debate. Describing this debate as a moment when elements of the left sought to advance a new developmentalist policy paradigm as an alternative to neoliberalism, I discussed how core assumptions of strategic trade, capital market imperfection and the possibility of developmental state building infiltrated the neoliberal paradigm. This, I argued, led first, through a process of reworking and justification, to a kind of neoliberal developmentalism - centred on support for venture capital - which secured the establishment of the modern hidden US developmental state. It also led, through a process of adaptive problem solving, to a new anti-developmental orientation within US foreign economic policy.
- Finally, in the paper four, I examined the internal dynamics of this new anti-developmental order through a comparative study of US trade policy towards Japan and China. Here I examined how this order, despite its shared goals and assumptions about the threat of the developmental state, has been characterised by a tension between results-oriented and rules-oriented policies. This tension is informed by the nature of American relations with different states, the character of industrial policies those states employ and, most importantly, the different perspectives of the USTR and the Department of Commerce. The paper therefore sought to add more depth and texture regarding the active practice of anti-developmentalism, as well as identifying factors likely to influence its future development.

Collectively then, the four papers provide a general narrative concerning what American anti-developmentalism is, the core ideas which comprise it and genealogy of these ideas. In so doing, I hope they provide an account of ideational changes in US protectionism since the 1970s (a topic largely neglected by constructivist scholars of US trade policy). The thesis has refrained from strong assertions about the role anti-developmental ideas have played in causing the marked shift towards protectionist and unilateralist trade policy which has

characterised US trade policy in recent years. What can be said however, is that any attempt to develop a constructivist account of the protectionist changes in US trade since the 1980s (and there are compelling theoretical reasons why such an account is necessary) will have to be informed by a detailed understanding of the substantive content of the new protectionist ideas. By charting at least one of the major strands within new protectionist thought, and its underlying assumptions, I believe this thesis marks a significant step towards the creation of such an account. It should also be said that whatever its actual role in ‘causing’ protectionism since the 1970s, anti-developmentalism has at least played a prominent part in *how* that protectionism has been justified. Consequently, by providing a clearer interpretation of anti-developmental ideas, the thesis should hopefully make it easier to evaluate and critique them.

Scholarly contribution of the thesis

In closing the thesis, I would like to reiterate what I regard as the main contributions. As noted in the introduction these contributions relate to three primary areas. Firstly, the thesis helps explain an important feature of US foreign economic policy as it has developed since the 1970s. The growth of aggressive unilateralist trade policy, especially directed at East Asian states, has been widely recognised. So have the specific institutional configurations – such as the *Omnibus Trade and Competitiveness Act* (1988) that produced it and the invocation of new ideas such as ‘fair trade’ through which it was justified. The role of this thesis has been to identify anti-developmentalism as an organising ideational principle behind the new protectionism, and to explain this ‘anti-developmentalism’ as the result of the unique reassociation of liberal and developmentalist ideas. In so doing, the thesis paves the way for a constructivist, ideas focussed interpretation of the rise of modern US protectionism, something which - while certainly not the only factor driving US foreign economic policy - is likely a major and overlooked component.

Secondly, the thesis helps to contextualise the emergence since the 1970s of a ‘hidden US developmental state’. The existence of such a state has become an increasingly important topic of discussion within American political economy, as has the contention that this state is obscured in various ways that curtail its general effectiveness. Yet the variety of factors responsible for submerging the US developmental state have not previously received adequate discussion. By pointing to ongoing tensions between different ‘orders’ within US

developmental state-building, the use of private-public partnership (particularly through credit markets), the reassociation of liberal and developmentalist ideas, and especially the formative place of the venture capital industry in recent US developmental state-building, this thesis has sought to provide a fuller explanation of how the US developmental state became hidden. Here, the thesis has addressed a seeming paradox in recent American economic policy; namely how increasing US hostility towards foreign developmental states can be reconciled with the emergence of a US developmental state. I suggest that it is thanks to a prolonged process of institutional and ideological submergence that the US developmental state is often not recognised as a developmental state at all.

Thirdly, the thesis has sought to reframe and clarify how both the US developmental state and an anti-developmental foreign economic policy order relate to the larger neoliberal policy paradigm recognised to have dominated US politics in the 1980s. While it at first seems natural to view the US developmental state and protectionist components within US foreign economic policy as sites of resistance to neoliberal hegemony, this thesis suggests such a view is misleading. Instead, it argues that both the US developmental state and the anti-developmental foreign economic policy order have been effectively integrated within the US neoliberal policy paradigm. With regard to the US developmental state, a process of reworking and justification has ensured it is primarily seen as supportive of the actions of the private sector. Similarly, with regard to the anti-developmental foreign economic policy order, I have argued that this order is properly seen as an example of neoliberal adaptive problem-solving, which seeks to protect and enforce a market-based global order by opposing the activities of foreign activist developmental states. Despite arguing this, I have also argued that this order was not a natural or inevitable product of neoliberalism, thereby departing somewhat from arguments made by Murdaco, (2016), Nymalm (2017), and in my own earlier work (Wright 2019). Instead, I have argued it was the product of liberal ideas - which formed the basis of the neoliberal policy regime - coming into contact and having to take account of long-running developmentalist ideas in American politics. In making this argument, the thesis therefore also seeks to suggest something about the nature of 'neoliberalism' arguing that 'neoliberal' policies might generally be understood as the result of reassociation between classically liberal and non-liberal ideas.

Critical reflections

In reviewing the argument the thesis has presented, I am keen to emphasise there are various ways in which the account of anti-developmentalism offered is still incomplete in ways I hope to remedy in further research. In particular, the account in paper two of the history of US developmentalism - critical to creating the conditions of the industrial policy - is necessarily overly stylised and glosses over many important details concerning how developmentalist and liberal ideas have historically interacted. I would ideally have offered over the course of multiple papers, a more detailed description of the specific dynamics that characterised each of the three developmentalist 'orders' discussed. I would also have liked to consider in more detail how some of the American discussions on trade policy in the eighteenth and nineteenth century - the focus on absolute reciprocity in trade relations which characterised Jeffersonian thought for example, might be interpreted as an early antecedent of anti-developmentalism. Such issues were omitted largely for reasons of time and space and because I feared they would confuse an already complex argument. Yet they raise important issues that I hope to address in future work.

Another important omission in the argument presented is the neglect of the place of the *General Agreements on Trade and Tariffs* (GATT) and the *World Trade Organization* (WTO) in relation to American anti-developmentalism. Obviously, one of the most critical changes in US trade politics and in international political economy more generally which occurred during the 1980s and 1990s, was the transformation of GATT into the more expansive WTO with its powers of dispute adjudication, as well as the expansion of the WTO's purview to cover issues such as services, non-tariff barriers and trade related intellectual properties. Much of this has important implications for anti-developmentalism. The changes to the WTO have often been accused of severely restricting the industrial policies of developmental states and the US certainly played an important part in promoting these changes - in part - for this reason. At the very time when anti-developmentalism was emerging in US trade politics, many of its proponents looked to the creation of the WTO as a potential solution to the problem of the developmental state. This perspective is essentially what Slobodian (2018a) has described as 'neoliberal globalism' and is obviously a close relative of the anti-developmental orientation that I have described. At the same time however, in the two dramatic cases of US-Japan and US-China conflict, American officials were willing to jettison the GATT/WTO process and act unilaterally against foreign

industrial policies, with people central to the anti-developmental paradigm such as Robert Lighthizer, becoming bitterly critical of the WTO. The issue of why American anti-developmentalists became disillusioned with the WTO process, in spite of the way it arguably advanced their core goal, is an important question the thesis would ideally have addressed.

Based on existing research, it seems likely that the ability of states such as Japan and China to 'get around' WTO provisions and even use them as a legal shield against American action, played an important role in convincing anti-developmentalists that the WTO was more hindrance than help.¹⁵⁷ The discussion of such issues was not included in any detail in the papers that focussed on the emergence of anti-developmentalism and on those periods in US-Japan and US-China conflict where, because of the US embrace of unilateralism, the WTO was a less relevant force. I intend in the future to write a paper that will discuss in detail the complex relationship of anti-developmentalism to the WTO.

A final area of improvement would have been to expand the analysis to US policy towards other developmental states such as Taiwan and South Korea. Such states have also been active practitioners of industrial policy, and this has been a cause of some tension with the United States. Adding them as cases in a larger comparative study, instead of just US-China and US-Japan relations, may have helped give a broader view of the operation of the US anti-developmental paradigm. They also raise an important and challenging questions for my argument - since in neither the case of South Korea or Taiwan did the United States engage in the kind of highly aggressive, punitive trade policy it pursued towards Japan and China as part of its anti-developmental strategy. Again, these are issues that, allowing for greater time and space, the thesis would have sought to address. In essence, I would argue that the differences in the US approach to South Korea and Taiwan likely reflected their relatively small influence and effect on the US economy compared to China and Japan. This, in part, links to the issue of the WTO. For such small states, an assumption that characterises US trade policy seems to be that if the damage they could inflict on the US economy is sufficiently limited, then the procedures of the WTO can address any issues with their industrial policies. It is only in the case of China and Japan - developmental states large and powerful enough to resist WTO pressure and to

¹⁵⁷ This has been accompanied with wider concerns held by many in US trade policy circles concerning the WTO as a threat to American sovereignty and US interests (Irwin 2015).

impact significantly on the US - that unilateral action needs to be taken. It is in these cases, I suggest, that anti-developmentalism has most naturally emerged as a policy approach.

As I have alluded to already, I also recognise how the argument of this thesis might have been enhanced by the inclusion of more diverse methods - in particular, an ethnographic, interview-based approach to studying US anti-developmentalism. Alternatively employing a more quantitative approach to study the reassociation of liberal and developmentalist ideas may have yielded different findings than the historical comparative research approach employed. Limitations of time and resources, not to mention the Covid-19 pandemic, prevented the inclusion of such methods in a supplementary manner, although I hope to employ them in future related research.¹⁵⁸ I am convinced, however, based on the evidence already assembled through historical comparative case studies presented here, that such research would serve to further verify and extend rather than challenge the conclusions of this thesis.

The Trump Administration's trade policy

To close, I offer some broader reflections on how my argument relates to the recent changes in US foreign economic policy brought about by the Trump administration. The research I undertook informing this thesis was all conducted during the Trump Presidency and motivated by trying to understand the dramatic changes Trump had wrought in the area of trade policy. To avoid being overly presentist, or taking aim at a constantly moving target however, I refrained from focussing too much on the Trump period directly, attempting instead to trace the development of a particular policy order which I believe has relevance for understanding Trump's time in office. At the time of writing the Trump administration has ended so it now seems fitting to draw the links more explicitly between 'anti-developmentalism' and the Trump administration's trade policy.

In the trade policy of Trump administration, observers have often detected an attempt at the wholesale dismantling of the liberal multilateralism established after the Second World War.

¹⁵⁸In particular, I am currently working on a paper based on ethnographic work in Washington DC and West Virginia, focussed on the policy responses to the losers of globalisation. This work was undertaken during the early stages of my PhD research although I ultimately choose not to include it in the dissertation. I am also now working on a paper employing qualitative content analysis on the US-China Security and Economic Review Commission (USCC) to track changing attitudes to China in the US foreign economic policy establishment. Again, this work began as part of my PhD research but was put on hold due to time constraints.

Trump's approach, in this account, is in many ways a return to the classic 'beggar thy neighbour' protectionism of the 1930s. There is certainly a considerable roster of evidence supportive of this account, for example the Trump trade agenda has included:

- Renegotiating the *North Atlantic Free Trade Agreement* (NAFTA) with Mexico and Canada so as to include more protectionist elements such as 'country of origin rules'.
- Undermining the WTO by refusing to make appointments to the appellate court therefore throwing the organisation into crisis.
- Imposing, under the flimsy pretext of 'national security' major tariffs on steel and aluminium - the effects of which were in significant part borne by European allies.

In these ways Trump's overall trade agenda appeared less a targeted strike on the East Asian developmental state, than a general scattershot assault on free trade. His trade policy record seems almost an 'act of defiance' against the very concept of an economically interconnected world; one motivated by a perception that it is his white-working class base which that world has hurt. Moreover, in his public statements, Trump often evinced a crude and unreconstructed form of protectionism, obsessing, for example, over trade deficits and claiming that the costs of tariffs are fully paid by foreign exporters and not by domestic consumers. In these ways Trump's trade philosophy seems more informed by conventional protectionist ideas than by the more nuanced 'strategic trade' ideas I have associated with the anti-developmental order.

All this notwithstanding, it is important to realise that Donald J Trump, for all his significance, is not the 'Trump administration' and that much of the detail of policy, in trade as in other areas, have been crafted by lower-level officials. With regards to foreign economic policy such key figures have included Robert Lighthizer, United States Trade Representative, Steven Mnuchin, the Secretary of the Treasury, Wilbur Ross the Secretary of Commerce, and to a lesser extent Peter Navarro a member of the Council of Economic Advisers. With these figures, much more so than Trump himself, issues related to anti-developmentalism have been a very important consideration.

It is becoming retrospectively clear that the component of the Trump administration's foreign economic policy likely to become its most significant legacy is the more confrontational US stance regarding Chinese developmental capitalism. While the negotiations over NAFTA

ultimately produced a largely similar renegotiated deal, and the tariffs on steel and aluminium did not escalate into a full-blown trade war between the US and European countries, the conflict between the US and China has developed into a major long-lasting confrontation. It is also clear that there is now considerable cross-party support in the US in favour of preserving a stronger stance against China, and at least not sacrificing whatever leverage the Trump administration achieved by making unilateral concessions. Moreover, it is also clear that much of the broader Trump trade agenda was strongly influenced by concerns about Chinese industrial policies. In particular;

- The renegotiation of NAFTA and particularly the introduction of greater ‘rules of origin’ content requirements was strongly influenced by a desire on the part of US negotiators not to allow Mexico to be an exporting platform from China to the United States.
- The steel and aluminium tariffs have been justified in terms of the need to respond to global production gluts created by Chinese subsidies.
- The disillusionment with the WTO that has driven the Trump administration’s undermining of the appellate body was related to the view that the WTO had proved ineffective.¹⁵⁹

The thinking of the Trump administration on trade and its efforts to respond to Chinese developmental capitalism was thus in many ways deeply in concert with the anti-developmental order. As was the case with Japan in the 1980s, key figures in the Trump administration conceptualised Chinese industrial policies as a very real threat to American interests but one that the US with its commitment to free trade and liberal democracy could not simply imitate. The ambivalence of the anti-developmental attitude to the developmental state - simultaneously respecting the potential effectiveness of industrial policies, but doubting their applicability in the US is well captured in the following two remarks from Lighthizer:

The fact is that we (Americans) spent most of our lives saying that we don’t need an industrial policy, and the Chinese are proving that we probably do need an industrial policy. (USCC 2010, 75)

¹⁵⁹ See for example this quote from Robert Lighthizer - ‘when we think about the WTO, remember, when the GATT was originally organised, the whole concept was to have a group of democracies and open-market economies. They didn’t want people that have a different system there...it was designed to bring prosperity to people who believe in democracy and free markets. And over time for obvious reasons, it expanded, and then we let China in, that fundamentally changed it, and all of a sudden for the first time, those two principles were not part of the equation (USCC, 76).

When we talk about industrial policy, we have to be realistic enough to know there is a tension between that and free trade principles, and it's not an insignificant problem. It is a very significant tension. So, while we may say we want to be free traders, but we also want to have an industrial policy, in fact those are very contrary thoughts. (USCC 2010, 81).

As Head of the USTR and the leading figure in forming Trump's trade policy, Lighthizer's way of dealing with these 'contrary thoughts' was to go after Chinese industrial policies with an urgency and conviction that stemmed from viewing them as a genuine threat. As discussed in paper four, in doing this his approach was arguably less compromising than the earlier results-oriented strategy that had been advocated by figures such as Clyde Prestowitz against Japan. As the head of an increasingly empowered USTR he also had considerably more freedom to pursue this anti-developmental strategy. It seems fair to say, therefore, that the Trump administration has represented the high point of the anti-developmental order.

The Future of US Anti-developmentalism

With the Trump administration now at an end, the question lingers at the close of this thesis concerning what future the anti-developmental order in US foreign economic policy will have. Although the current US-China trade war is likely to be deescalated somewhat, the fundamental tensions that produced it have not gone away. With the continued 'rise of China', and the continued commitment of the Chinese to their state-directed model of developmental capitalism, American policymakers will continue to confront the developmental state for the foreseeable future. While its industrial policies are still seen as a threat to the United States, and while such policies are not seen as imitable in the American system of government, the fundamental tensions and concerns that produce US anti-developmentalism will remain in play. The power of the anti-developmental order may wax and wane from administration to administration, but if these basic tensions are not resolved it will always potentially exert influence again.

If there is a prospect for dismantling the anti-developmental order in US foreign economic policy - and thereby preventing the disruption it is capable of wreaking on the global economy - it most probably lies in Americans striking a new balance between the developmentalist and liberal ideas that have shaped their history, creating new ways to bring developmental practices

into the open and making them fit better with the free-market capitalist system of the US. The present moment may represent a time where such change is possible. On the left there is new interest in industrial policy seen both in the wave of enthusiasm for a ‘*Green New Deal*’ and in the ‘*Made in America*’ industrial recovery plan proposed by the incoming Biden administration. On the right as well, there are some signs of a historic realignment, with Senator Marco Rubio in particular advocating a ‘twenty-first century, pro-American industrial policy’ to counter the rise of China. It is just conceivable that out of these alignments a new consensus will emerge; one which allows the United States to practice industrial policy more openly itself and thereby respond less aggressively to the industrial policies of others.

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TITLER I PH.D.SERIEN:

– a Field Study of the Rise and Fall of a Bottom-Up Process

2004

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