



A study of Industrial Policy Resolution

Ram Mehar

Abstract

In order to reduce widespread and persistent poverty in developing countries, we have to develop labor-intensive industries to provide ample employment opportunities for the poor. Yet the term “industrial policy” is synonymous with “undesirable policy” for many economists and policymakers, as the policies implemented to support industrialization in the 1960s and 1970s were so unsuccessful. Such policies were highly interventionist without carefully considering market failure. In contemplating appropriate policies, it is critically important to recognize that there are many types of market failures in industrial sectors because of (1) the high transaction costs arising from imperfect contract enforcement and information asymmetry about the quality of final products, raw materials, and parts, as well as the quality and work attitude of employees, (2) spillovers of technological and managerial information from innovators to imitators, (3) underinvestment in human capital due to credit constraints and uncertainty, (4) underinvestment in public goods, such as roads, electricity, and communication systems, and (5) imperfect credit markets due to adverse selection, moral hazard, and incomplete contracts. We believe that the heart of the question is how we can reduce such market failures so as to stimulate the development of industries. The ultimate purpose of this book is to formulate effective policies to promote industrial development – we call this “industrial development policy,” as distinct from “industrial policy.”

Keywords: Industrial Policy

Meaning of Industrial Policy:

Any government action aimed at affecting industry may be considered to be part of industrial policy, which makes it a limitless field.