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WHY SHOULD GOVERNMENTS INTERVENE?

- profit-shifting: (i) give firms the first mover advantage when they would not attain such an advantage by themselves (ex, technological risk and high sunk costs); (ii) inter and intra temporal profit shifting;
- counter-act wasteful strategic behaviour: (i) between firms: over or under investment, pricing and production; (ii) of the firms vis-à-vis the government;

CONSIDERATIONS IN POLICY MAKING

- Government's ability to commit;
- Firm's confidence in government commitment;
- Firm's ability to commit;
- Firm's reaction function: domestic and foreign;
- Nature/magnitude of resource waste: over investment, pricing and production;
- Nature/magnitude of opportunity waste: under investment, pricing and production;
- Inter and intra temporal decisions.

GOVERNMENT CONSTRAINTS

- Fiscal constraints – ex., costs of subsidies
- Policy constraints – ex., structural adjustment programmes
- Institutional constraints – ex., legislation, ability
- Trade arrangements – WTO prohibits export subsidies but does not prohibit export credits and investment subsidies; prohibits trade discrimination, but considers the cases of countries with chronic BoP problems;

INDUSTRIAL POLICY CONSTRAINTS

- how much benefit to specific firms, industries and forms of capital?
- How much benefit to the economy as a whole?