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Analysis of today
Assessment of tomorrow

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All the dangers of Trump meddling in markets

For at least the last 150 years, state intervention in picking individual industries and firms to support has been shown to undermine productivity and weaken economic performance.

When political considerations outweigh sound commercial judgment, companies may be compelled to keep unprofitable factories open, maintain loss-making activities, favor government-owned suppliers over private vendors, or appoint unqualified but politically connected individuals to leadership positions.

By contrast, when private companies are inefficient or producing goods people do not want, they exit the market, and more productive companies enter.

The profit motive drives businesses to recruit capable employees, produce quality goods that meet demand, innovate, and embrace cutting-edge technologies.

When subject to political influence or control, companies generally have weaker incentives to pursue these goals precisely because government ownership shields them from competition.

In the United States, as in most advanced economies, the private sector has long been the primary driver of GDP growth.

With governments playing a relatively limited role – establishing regulatory frameworks, supporting basic research and innovation, and curbing monopolies – competition has flourished, delivering decades of economic prosperity.

The playbook of state-controlled economies

But under President Donald Trump, the US – once an avatar of free-market capitalism – has broken with this tradition.

Since the start of his second term, Trump has repeatedly meddled in private-sector decision-making.

His administration has targeted law firms, universities, think tanks, semiconductor and battery manufacturers, media companies, research, and more.

And, taking a page from the playbook of state-controlled communist economies, his administration has gone even further, moving from intimidation to direct government ownership of private firms.

In June, for example, Japan's Nippon Steel was permitted to acquire US Steel but had to grant the federal government a "golden share," giving American policymakers veto power over the company's business plans.

Even before Trump's intervention, Nippon Steel had pledged to make major investments in US Steel, retain all employees, and honor newly negotiated contracts with union-represented workers.

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Trump's deal with chipmakers Nvidia and AMD illustrates this contradiction. In April, the administration halted the sale of advanced semiconductors to China on national-security grounds.

Yet by July, Nvidia and AMD were permitted to resume sales, provided they hand the US government 15% of the revenues.

The administration's shadow

The administration's deal with Intel is even more brazen. In August, Trump announced that the US government had acquired a 10% stake in the company, paid for with $5.7 billion Intel had already been promised under the CHIPS and Science Act and another $3.2 billion from the Secure Enclave program.

The agreement also effectively shackles Intel to its loss-making foundry while giving the government the option to buy an additional 5% if the foundry is ever sold.

Notably, by converting anticipated CHIPS grants into equity, the agreement does not provide Intel with new government funds.

> The administration's shadow will loom over the company's decision-making

Meanwhile, private shareholders bear the cost of dilution: the US government purchased its stake at $20.47 per share – well below the $24.80 closing price on the eve of Trump's announcement.

Although the government will hold no seats on Intel's board, even without formal representation, the administration's shadow will loom over the company's decision-making.

Policymakers could lean on Nvidia, AMD, and other firms to buy semiconductors from Intel, pressure the company to build new factories in unprofitable locations, or force it to hire workers chosen for political loyalty rather than competence.

Picking losers

Intel's prolonged decline underscores the poor economics driving Trump's investment. In the 1990s, the company was the leading semiconductor manufacturer; in 2000, it even briefly became the world's second most valuable company.

Today, however, it doesn't even crack the top 15 chipmakers by market capitalization.

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Intel has also been the single largest beneficiary of the CHIPS Act, using federal funds to develop new production facilities in Arizona.

But construction faced repeated delays, with executives blaming a shortage of skilled labor. Similarly, an Ohio plant already under construction has had its completion date pushed back from 2025 to 2030.

Against this backdrop, Trump's Intel deal looks especially misguided. What the company truly needs is new financing to service its existing obligations, swollen by years of heavy losses, and fund the turnaround plan developed by its new CEO, Lip-Bu Tan.

SoftBank, the Japanese investment conglomerate, recently announced a $2 billion investment in Intel, though whether that move reflects genuine confidence in Intel's future or an effort to curry favor during tense tariff negotiations between the US and Japan remains an open question.

Industrial policy is often said to be about "picking winners." But given Intel's recent performance, the Trump administration seems intent on picking losers.

While few dispute the importance of steel production, or that semiconductors will drive future growth, Trump's brand of state capitalism does little to strengthen either industry or the broader US economy.

Instead, it exposes the dangers of government meddling in markets: wasted taxpayer money, distorted incentives, weakened competition, and less dynamism and innovation.

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