

Crafting the future

Strategies for modern industrial policy

August 2025

Strategy realized



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The better the world works.

Introduction



The US is entering a new era of industrial policy with a sense of urgency and a level of public investment not seen since the Space Race of the 1950s and 60s – a defining example of how the government working with the private sector can boost the trajectory of priority industries and enhance economic and national security outcomes for all Americans.

Today, the US faces rising complexity in the world with rapid changes in how countries are engaging in economic and technological competition, weighing critical interdependencies and rethinking connected supply chains. In recent years, we have seen a renewed focus on strengthening economic resilience and advancing national security priorities, with over \$2 trillion mobilized to support US competitiveness in infrastructure, energy, and technology development, among other key areas*.

Industrial policy in the modern era requires balancing multiple types of programs and initiatives that come together at the intersection of major policy priorities, government funds and expertise, capital market or private sector engagement and

technological innovation. In an environment of constrained resources and competing priorities, federal agencies must make deliberate choices about where to focus investments, how to harmonize discrete missions and capabilities to amplify impact and how to measure industrial policy success.

Addressing these challenges demands a new mindset – one that blends public sector instruments and mandates with the entrepreneurial agility of private enterprise. With this in mind, we at the EY-Parthenon practice have reflected on our deep experience working with government leaders to bring the transformative potential of capital markets and technological innovation at scale to major policy priorities. This paper provides our insights and observations on how government leaders can foster innovation to build long-term economic resilience and advance national security, and we offer our learnings from three recent cases, where we have helped government leaders develop a path forward to build US technological advantage, modernize defense assets and grow the national security innovation base.

*Direct funds approved from the Infrastructure Investment and Jobs Act, CHIPS and Science Act, and Inflation Reduction Act from The White House Guidebook ([whitehouse.gov](https://www.whitehouse.gov))

Modern industrial policy programs demand new tools and capabilities

Calls for a renewed industrial policy agenda has been growing for some time. The advent of advanced technologies, supply chain disruptions caused by COVID-19 and the drive to reduce foreign reliance have all contributed to significant policy interventions. Seismic shifts in geopolitical tensions—manifested in the shifting balance of power between the East and West – further underscore the need for greater industrial and economic resiliency in the event of foreign conflict, economic shocks or other unforeseen challenges.

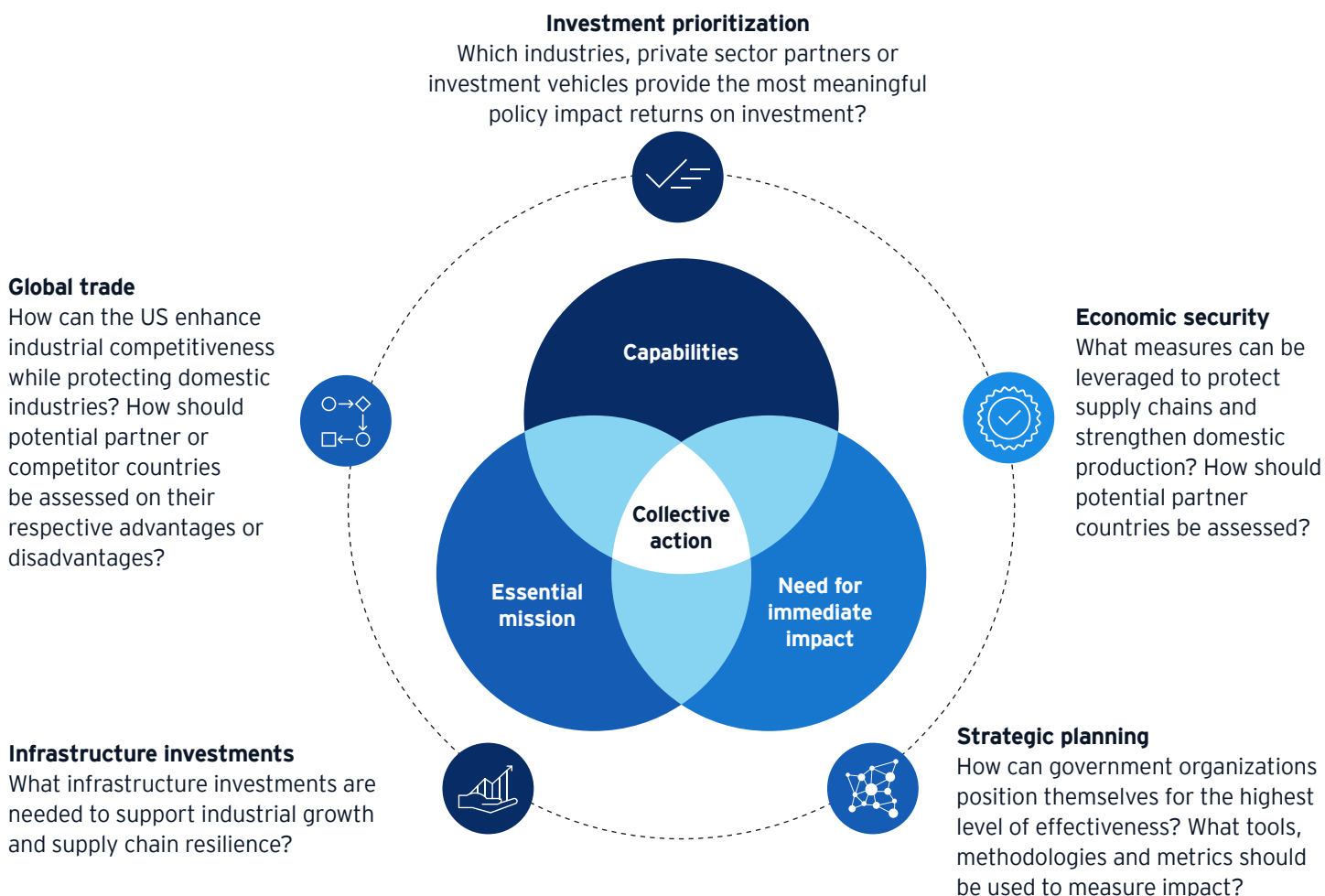
As technological advancements increase in velocity, legacy planning and budgeting frameworks such as the Planning, Programming, Budgeting and Execution (PPBE) process developed during the Space Race era are no longer suited for the rapid decision-making needed for the US to remain

competitive. Instead, policymakers and program managers must consider new operating models or blueprints that enable and accelerate collective action at the intersection of mission, capabilities and impact; this means converting strategic objectives into actionable plans, allocating resources effectively, building organizational nimbleness and measuring outcomes. By embracing more responsive and adaptive approaches, the federal government can better meet evolving threats and vulnerabilities.

We offer practical considerations and observations below, informed by our work with leaders across federal, state and local governments, on how to bolster economic competitiveness and overcome the unique hurdles of activating industrial policy in this era of heightened urgency.

Framework for collective action and activating industrial policy

[Click on each section to learn more](#)





1. Investment prioritization

Identifying industries for global competitiveness and economic security

In a world where unexpected shocks can ripple through global economies overnight, investments bolstering economic security and resilience are critical. These include sectors and technologies that drive innovation, economic growth and high-value job creation – such as aerospace, clean energy or advanced manufacturing. However, determining where to allocate public capital and through which vehicles remains a challenge.

While US private capital markets excel at identifying high-potential firms: guided by clear metrics like technological superiority, strong leadership teams and sound strategies – public sector investments do not enjoy similarly transparent returns. Government-driven initiatives often carry decades-long investment horizons, encounter intersecting mandates from multiple agencies, and must navigate countervailing priorities, making it difficult for industrial policy programs to set and adhere to clear investment priorities.

This complexity has prompted exploration of a variety of public-private partnership (PPP) models and financial instruments, as seen in evolving approaches including:

Co-investment and replication models

Mirroring successful private sector techniques, the government can coinvest alongside reputable private partners, leveraging their due diligence processes and market acumen.

Lending to lenders

By providing loan guarantees or extending credit lines to private financiers, the government can indirectly channel capital into strategic sectors without having to pick winners directly.

Project finance and securitization

Using structured financial tools: such as bundling investments into portfolios or creating revenue-backed securities – can help reduce risk and attract greater private participation.

Capacity-building partnerships

Collaborating with private entities on R&D consortia, incubators or technology accelerator programs can confirm that leading-edge capabilities are nurtured, scaled and ultimately commercialized.

However, these approaches raise significant governance and oversight challenges. Enabling alignment among partners, managing conflicts of interest and setting appropriate incentives is vital. Questions about the government's degree of control: defining strategic conditions, performance thresholds and voting rights – must balance flexibility with accountability. By blending innovative financing, strong oversight and careful partner selection, policymakers can confirm public investments strengthen US competitiveness and resilience.

2.

Economic security

Building supply chain resilience

Today's world is marked by geopolitical tensions, supply chain disruptions and economic uncertainties. Strategic measures—such as diversifying supply sources, bolstering domestic production capabilities and building comprehensive risk management plans – are needed to enable supply chain stability and reduce risks to economic security.

Building supply chain resilience, however, requires careful decisions about where federal support will have the greatest impact along a given sector's value chain. Not all segments carry equal weight. For example, investing in advanced semiconductor fabrication facilities: where leading-edge chip production occurs – may provide immense strategic value but entails high capital costs, intricate technology demands and long lead times. By contrast, investing in critical but less capital-intensive parts of the chain, such as testing and packaging, might yield more immediate impact on reducing dependencies. Each part of the supply chain offers varying degrees of leverage: some investments can influence entire markets, while others address narrower but vital vulnerabilities.



3.

Strategic planning

Aligning agencies with program outcomes

Government initiatives often grapple with collective action problems, where overarching goals: such as enhancing national security or reinforcing economic resilience – are clear, but the tactical “how” remains murky. Different agencies may share high-level ambitions, yet the specific tools, mandates and deliverables at their disposal are not always clearly delineated or aligned.

While robust market research and investment theses can guide sector prioritization, quality strategic planning is where large-scale programs frequently stumble. A good strategic plan clarifies roles and responsibilities, sets measurable objectives tied to actual outcomes and provides a decision-making framework to assess government vs. private sector impact. When an agency's operations and support functions are centered around enabling these objectives, the result is a cohesive, integrated effort that more effectively amplifies the impact of invested dollars and strengthens the industrial base.

Another challenge that is unique to strategic planning for industrial policy programs is the mismatch between investment horizon and leadership turnover. Changes in political leadership and investment appetite: prompted by elections, departures of public sector staff or lengthy confirmation processes that leave key positions filled on an “acting” basis without full executive authority – can disrupt planning and execution, undermining efforts to achieve sustained progress.

This semi-regular churn complicates what is already a slow-moving machine (partially by design). Organizational and cultural changes are inherently difficult, and adopting new policies or ways of working often involves multiple layers of approval and oversight. Combined with procedural complexity, this can lead to bureaucratic inertia. Strategic planning helps policymakers proactively manage these factors, confirming that government actions can keep pace with sector innovation despite shifting leadership dynamics.

4.

Infrastructure investments

The backbone of industrial growth

Infrastructure investments play a crucial role in shaping industrial policy outcomes. By directing resources toward critical infrastructure projects, governments can address long-term challenges and provide the necessary foundation for industrial advancement. Infrastructure encompasses a wide range of sectors, including transportation networks, energy grids and digital connectivity. These investments not only facilitate efficient movement of goods and services but also unlock new opportunities for economic growth and innovation. For instance, a well-connected transportation system enables seamless supply chains, while robust energy grids and a reliable digital infrastructure enhance productivity and competitiveness across the entire economy. Without thoughtful planning, however, the benefits of infrastructure investment can be eroded by a number of pitfalls. Funding may inadvertently reinforce outdated or legacy technologies rather than catalyze leading-edge capabilities; procurement inefficiencies can lead to cost overruns or redundant projects; and insufficient attention to cybersecurity, data governance and advanced analytics may leave vital systems vulnerable to emerging threats.

By aligning infrastructure investments with industrial policy objectives, governments can future-proof their economies and maintain a technological edge. Legislation such as the Infrastructure Investment and Jobs Act (IIJA) provides a starting point, but agencies must also invest in their own internal “infrastructure”: talent, modern tools and integrated planning processes – to navigate shrinking budgets, legacy IT systems and fragmented procurement. Through structured decision-making and cross-agency coordination, policymakers can improve the impact of public expenditures, turning infrastructure investments into strategic levers that bolster long-term resilience, foster high-quality job creation and sustain national competitiveness.



5.

Global trade

Balancing competitiveness and protection

Global trade presents a dual challenge: how should policymakers and program managers balance competing priorities to enhance US industrial competitiveness while also protecting domestic industries? There is a broad portfolio of levers available to policymakers, including negotiating trade agreements, friend-shoring with allies, addressing inequities in trade practices or providing targeted support to domestic industries through tax credits or subsidies.

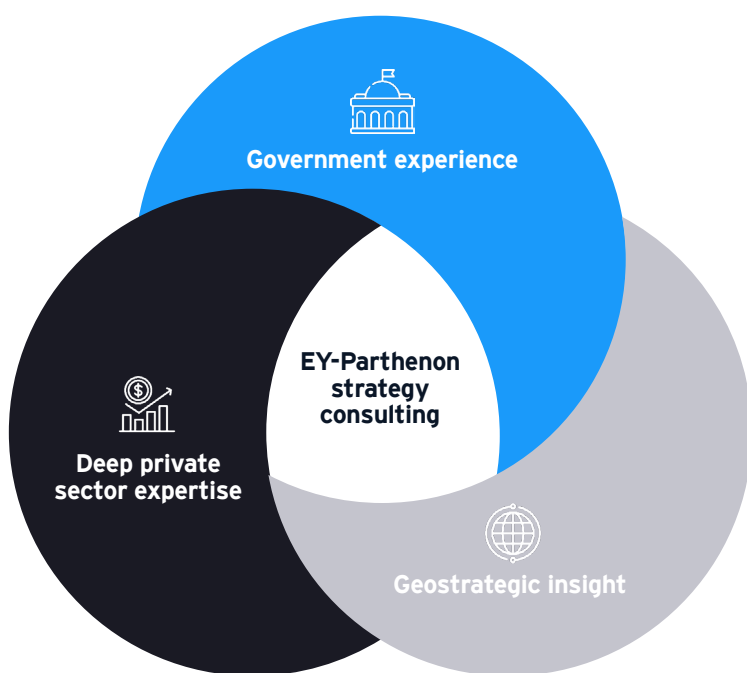
In determining the appropriate mechanisms to enhance economic competitiveness, policymakers must weigh strategic imperatives to increase US production capabilities for vital products and services against competitive responses by other countries and the impact on our global trade position.

In the face of these challenges, government leaders must find innovative and thoughtful approaches to effectively implement modern industrial policy. This complex landscape requires a nuanced approach, balancing the need for broad public service with the agility and efficiency often seen in the private sector. By focusing on the intersection of mission, capabilities and impact, policymakers can chart a course that not only addresses current challenges but also anticipates future opportunities.

The EY-Parthenon approach to activating industrial policy

The EY-Parthenon practice understands the complex challenges faced by government organizations tasked with advancing US economic competitiveness and executing on industrial policy mandates, and we work side-by-side with government clients on their most pressing strategic questions, from new program launch to transformation. We take an integrated approach that blends our experience in government, deep private sector expertise and geostrategic capabilities to help policymakers and program managers deliver successful industrial policy implementation and accelerated results.

The EY-Parthenon practice provides unique, industry-leading perspectives at the intersection of government experience, commercial expertise and geostrategic focus



Government experience

- We work with senior officials and executive boards on major strategic transformations at the intersection of public policy, financial services, technology operations and strategy
- Structuring government-led investment programs
- Decision-making on major capital projects
- Public-private partnership planning and operations
- Large-scale government fiscal transformations and public debt restructuring



Geostrategic insight

- Geostrategic insights and capabilities to translate geopolitical insights into business strategies, drawing from the expertise of our team of dedicated geopolitical specialists across political risk, government policy, public sector, strategy and academia
- We work with businesses to assess global political risk, increase resiliency and develop strategies to manage geopolitical uncertainty



Deep private sector expertise

- Market leaders in private sector work ranging from financial advisory, capital market and due diligence capabilities
- We work with market leaders in technology focused on bringing innovative platforms to market and leading investors assessing investment targets across all vectors and with Fortune 500 companies across 10+ industries

We work with government agencies and market leaders across sectors and are uniquely positioned to bring our professional insights from both public and private sector work to help activate successful industrial policy implementation. Our experience in the areas below allows us to design tailored solutions across the full program lifecycle: from mission setting through program evaluation – and supporting government leaders with the tools and insights needed to drive meaningful change.

Select EY-Parthenon capabilities for industrial policy programs (non-exhaustive)



Mission setting and priority identification

Help government and public sector programs define their mission and set their quantifiable, numbers-driven priorities accordingly

01



Strategic planning

Develop goal-based, purpose-led strategic plans, priorities and initiatives to activate an agency's mission, vision, values

02



Investment strategy and due diligence

Identify optimal industries or targets to invest in, select potential targets and conduct due diligence to assess attractiveness for investment

03



Portfolio assessment

Assess a program's existing portfolio and provide fact-based, data-driven recommendations for portfolio strategy

04



Operating model strategy

Design an operating model for the program and path for operational success. Identify opportunities to leverage AI or other automation capabilities

05



Program and policy evaluation

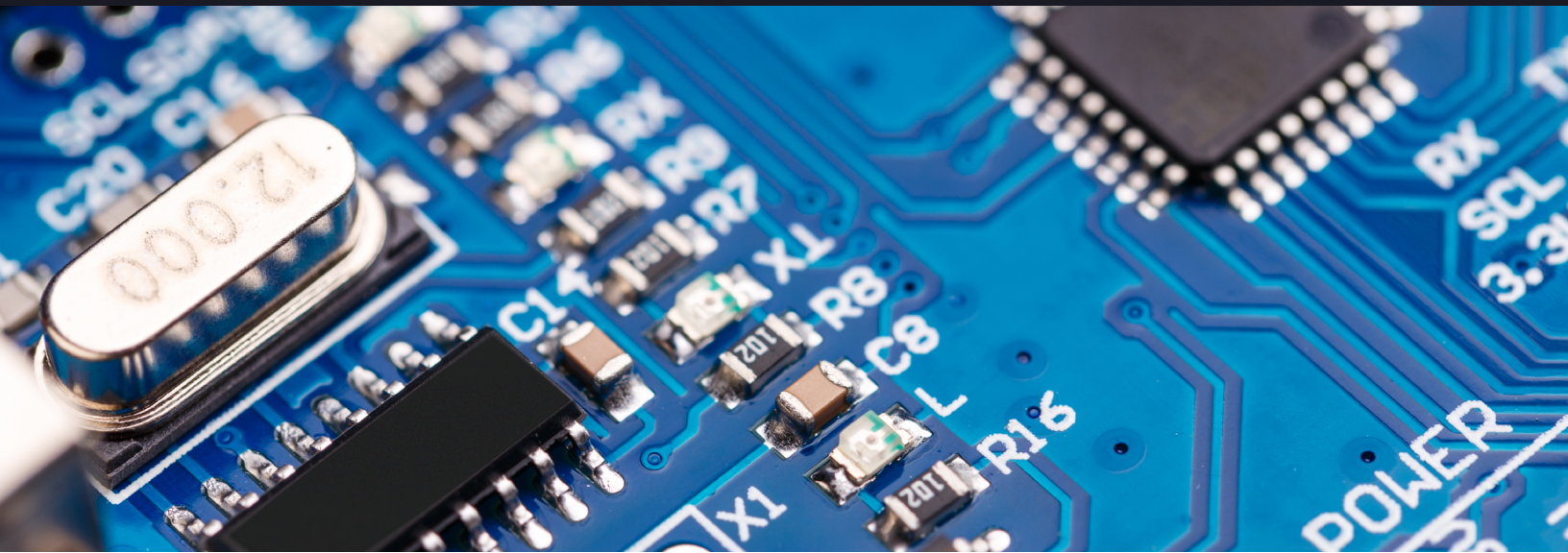
Assess existing program metrics and policies, program effectiveness and economic impact of policy decisions

06

The EY-Parthenon practice in action

Case study:

Federal industrial investment strategy to build US technological advantage



Project brief:

A recently created federal office focused on increasing US economic competitive and security capabilities through a venture-like approach was interested in developing a structured and repeatable way to prioritize investment based on national priorities. As a part of this effort, the office wanted to identify which industries are best aligned to internal goals and what tools would be best suited for investment.

EY-Parthenon solution:

The EY team assessed 40+ industry segments across key metrics, including industry maturity, US comparative advantage in manufacturing, environment for innovation, market share, private capital dynamics and level of enablement across industries (i.e., if investment in one industry or technology could amplify efforts in another industry). The EY team conducted detailed research on each industry's component inputs and value chains (from IP and design to production, dual use cases, and beyond) developed a consistent industry scorecard and rubric to identify potential opportunity zones for investments, assessed financing tools and partnerships best suited to enable investment and developed briefs and memos summarizing our expansive technical analysis for cross-government leaders and public stakeholders.

Value delivered:

The EY team delivered a comprehensive framework for industry investment with recommendations that are currently being used to drive federal government investment strategy and decision-making on issues with implications for national economic competitiveness and security. The office – the first of its kind in the government – recently announced its inaugural investment.

The EY-Parthenon practice in action

Case study:

Strategic planning to enable modernization of national defense assets



Project brief:

A forward-looking organization focused on enabling future operational superiority sought to assess the feasibility and development trajectory of fully autonomous systems for reconnaissance missions. The goal was to evaluate the readiness of key enabling technologies, identify barriers to achieving autonomy by the 2030-40 timeframe and recommend strategies to address gaps in capability, investment and adoption.

EY-Parthenon solution:

The EY team conducted a phased assessment to evaluate the readiness of 17 autonomy-enabling technologies critical to reconnaissance missions, such as decision intelligence, sensor fusion, data fabric and GPS-denied localization. This assessment mapped mission requirements to specific decision points, analyzed the current maturity of technologies and identified dependencies and development challenges.

The EY team also examined barriers such as limited trust in autonomous systems, high development costs and gaps in data quality and integration. Insights from stakeholder interviews and mission simulations informed recommendations for bridging these gaps. The team emphasized the importance of Responsible AI principles, modular and scalable solutions and government-backed funding to advance underdeveloped technologies and reduce private sector funding gaps.

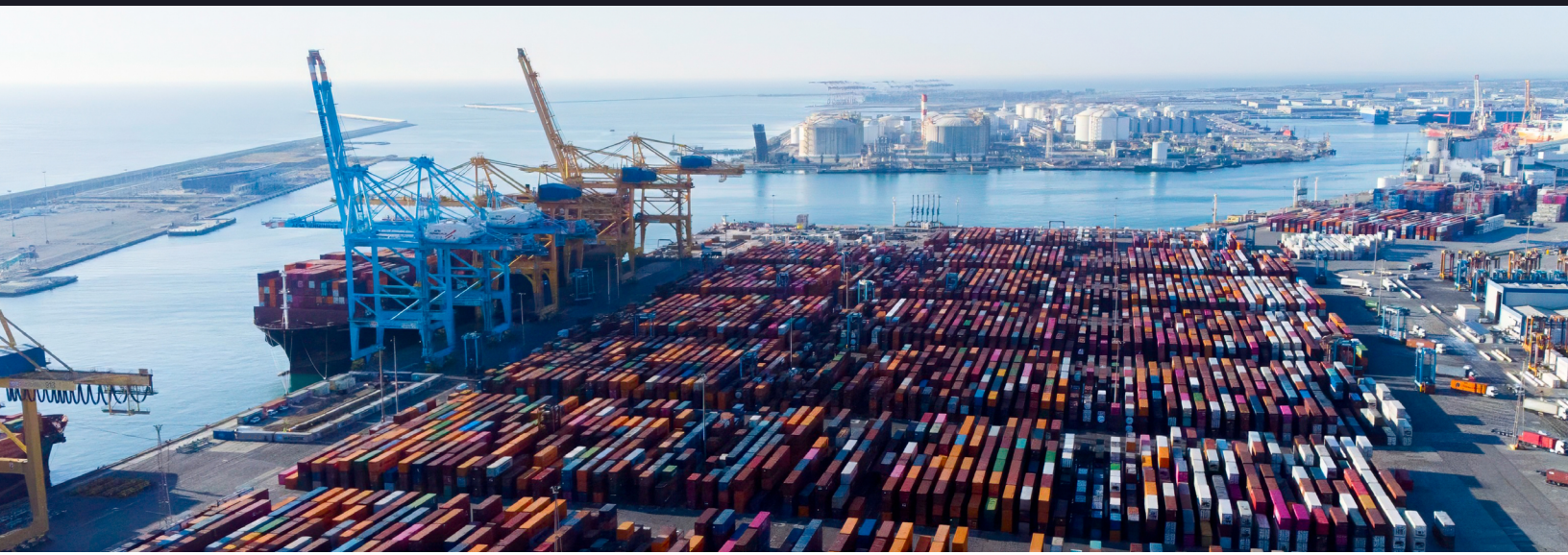
Value delivered:

The EY team delivered a comprehensive roadmap outlining the steps needed to transition from manned to fully autonomous systems, emphasizing key investments and policy interventions to accelerate technological maturity. The recommendations included prioritizing funding for critical technologies, fostering public-private partnerships and implementing data governance and ethical oversight to build trust in autonomous systems. By aligning stakeholders around actionable insights, The EY team empowered the organization to drive innovation and maintain operational superiority in future conflicts.

The EY-Parthenon practice in action

Case study:

Supply chain resiliency to grow the national security innovation base



Project brief:

A leading organization focused on advancing US industrial base resilience sought to analyze supply chains for three critical components of unmanned aerial systems (UAS) – flight controllers, motors and batteries for Group 1 and Group 2 UAVs. The objective was to identify risks within these supply chains, assess the competitive landscape of domestic and global suppliers and hypothesize actionable levers to reduce identified risks. This engagement prioritized dual-use components (military and civilian) and aligned with national security objectives, including compliance with NDAA standards.

EY-Parthenon solution:

The EY team conducted a comprehensive evaluation of the competitive landscape for flight controllers, motors and batteries, emphasizing US suppliers while benchmarking global competitors on market share, technical leadership and product specifications. Leveraging primary research, including professional interviews, The EY team identified key risk areas in the industrial base, such as supplier concentration and value chain vulnerabilities, and hypothesized improvement strategies. The team provided an assessment of tools to address industrial base gaps, such as R&D investment, policy interventions and demand generation strategies, refined through collaborative working sessions. The EY team also outlined levels of effort and historical case studies for implementing solutions to close identified gaps.

Value delivered:

The EY team delivered a set of targeted, actionable insights to align resources with the most pressing risks and opportunities in the UAS supply chain. Final deliverables included executive summaries for each in-scope component, detailed findings on industrial base vulnerabilities and tailored recommendations for catalyzing capabilities in underrepresented markets. This analysis provided a robust foundation to enhance supply chain resilience and safeguard critical technologies in a competitive and rapidly evolving global landscape.



Next steps and the opportunity ahead

Federal, state and local governments have a tremendous opportunity ahead to drive long-lasting economic and social change as the US enters a new age of industrial policy. While the journey will not happen overnight, it is clear that a thoughtful and strategic approach to prioritizing program dollars, objectives and partnerships will be key to providing effective forward momentum.

Our tailored strategies, supported by a deep understanding of the public sector needs and private sector practices, are designed to help equip government leaders navigate the complexities of their mission and making a lasting impact on the communities they serve. We look forward to continuing this conversation as US industrial policy objectives continue to evolve and public and private sector market participants position themselves for the future.

About EY government and public sector practice

The EY US government and public sector practice provides a full range of consulting, strategy, tax and audit services. We help government agencies realize their modernization and reform goals while driving accountability, transparency and mission success.

Every day, we solve the most complex challenges so the government can build a stronger country – for the people. We work with federal, state and local government agencies and education institutions to create better outcomes for the public they serve. We deliver results and change through high-performing teams, exceptional client service and commitment to our people and communities. We have a proud record of assisting government and public sector agencies meet their challenges head on, and work closely to build a country that works better for the people.

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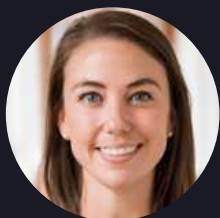
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