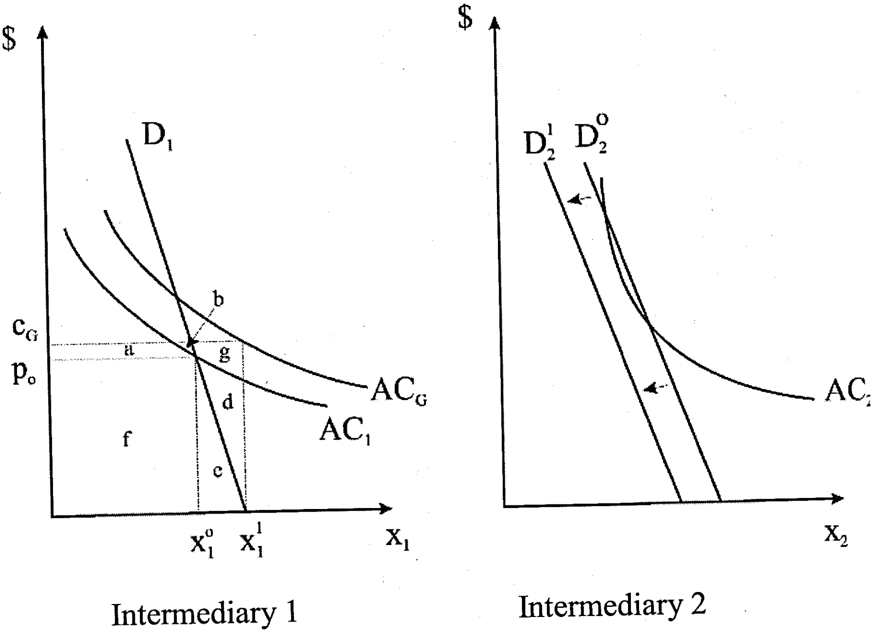
AC_2. Consequently, intermediary 2 is also driven out of business by the government entry into the market.

Figure 3: Crowding out intermediaries



The above example illustrates how well-intended government policy can reduce social efficiency by crowding out privately provided intermediation services. This need not always be the outcome of government provision of firm-specific intermediation services (as I discuss below), but it suggests that the case for intervention is weak. The complexity of the market for intermediation services and the lack of a clear theoretical or empirical consensus that governments could improve on private sector outcomes suggest caution is needed.

With this note of caution in mind, the above analysis suggests three ways in which government provision of firm-specific export promotion services may improve efficiency. First, governments could help firms select private sector intermediaries. The literature has emphasized the importance of