

The Rate, Direction and Timing of European Industrial Policy: A Few Proposals

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Outline

1. Introduction: the Return of Industrial Policy
2. The Stylized Facts of Industrial Policy and Europe
3. The Current European Strategies
4. Few Proposals

1. Introduction

- *“There was a time when ‘industrial policies’ both for develop and developing countries, were bad words not to be spoken either in public or in private by respectable people” (Cimoli, Dosi, Stiglitz, 2009)*
- Today, a new wave of attention to the topic: “new IP”, “rejuvenation”, “return to fashion”, “rethinking”, etc. (Warwick, 2013)
- The idea: bringing the entrepreneurial/innovation State (Mazzucato, Rodrik) at the supranational level

1. Introduction

Reasons for a “rise again” of IP:

- Long-run “shifting involvements”
- Short-run determinants:
 - “Double-dip” economic crisis (in Europe);
 - “alphabet” of the crisis, unemployment, capital structure destroyed, debate on austerity
 - Global competition
 - Secular stagnation
 - Structural transformation of production
 - Automation and “destructive creation”, factoryless producers and GVC, fuzzy boundaries between manufacture and services

2. IP Stylized facts and Europe

Definition of IP:

- “Industrial Policy is any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention” (Warwick, 2013)
- IP as “the provision of inputs that are specific to subsets of activities” (Hausmann and Rodrik, 2006)

Rationale of IP:

- Weight of government failures vs market failures
- Market failures: coordination and spillovers
- Nor vertical nor horizontal: each policy has a degree of “selectivity” (see balanced vs unbalanced growth debate)

2. IP Stylized facts and Europe

Stylized facts of IP:

- Dev countries produce less diversified and less sophisticated products;
- Manufacturing sector is the “locus” of learning and the engine of growth → reshoring;
- Some specialization patterns are more conducive of growth than others;
- There is unconditional convergence in manufacturing and at the product level;

In sum:

“what” is produced matters → focus shifts on the ultimate causes of production – the “specific inputs”: the capabilities (know-how) that have to be built or provided by IP

2. IP Stylized facts and Europe

What holds for Europe:

- Economy is already sophisticated, capabilities are already there, despite relative de-industrialization the real problems lie in the specific dynamics of the European Economy
- Stylized fact of Industrial Dynamics: opportunities, interdependencies, knowledge “races”, learning, “life cycle” features → rate and timing matter
- In the already industrialized and diversified EU industrial policy has primarily to solve the coordination problems related to specialization and asynchronous industry dynamics → the “specific inputs” to be provided are of a different kind

3. EU Strategies

Europe has a history of IPs: from European Coal and Steel Community to Spinelli up to now. Today:

Smart Specialization (SS):

- Addresses the coordination failures in specialization;
- Regional, technology and innovation policy; specialization patterns; GPTs (KETs/general and specific tech change); “entrepreneurial discovery”;

Industrial Renaissance (IR):

- Broad narrative (rationalizing the many EU programs); re-industrialization target (20 percent EU GDP); initiatives on single market + tech upgrading + SMEs + industrialization

Assessment:

- Right problems tackled with SS;
- More “fixing” markets than “creating” them – crowding-out fear

4. Few Proposals for a EIP

- **A Federal System of Investment Banks**
 - Success of SIBs (e.g. Marguerite Fund, LTIC)
 - A coherent network to avoid duplications and exploit scale
- **European Public Procurement**
 - “critical mass” argument, role of big demanders to solve coordination problems
 - “Coordination device” for infant industries and tech niches
 - Effect of innovative procurement on technologies’ generality
- **European Public Enterprises**
 - Mission oriented; employment creators; long term view
- **European Innovation Patrimony (Inno Dividend)**
 - See Iozzo/Meade/Rodrik – tech-related sovereign fund transforming debt in asset with long term (intergenerational) returns → tackles also inequality issue

Conclusions

- EU has a set of specific problems that requires specific solutions:
 - Coordination in specialization more than capability creation; intervention on the “direction” of industrial development and on its timing taking into account specific industry dynamics
- Need to go beyond a conservative approach aimed at just “removing bottlenecks”:
 - Similarities with cybernetics: IP as the science of “feedback and control”
- Four proposal related to “specific inputs” only the European dimension can supply
- Finally, interdependence with EU political (powers) and financial (budget) dimensions:
 - EIP as a supranational public good → source and product of institutional non-equilibrium process → Welfare gains beyond the borders of “industry”

Thank You For Your Attention