ISGrowth

INNOVATION-FUELLED, SUSTAINABLE, INCLUSIVE GROWTH

Policy brief

A Europe that works

An industrial policy for a good growth

Lunaria

2/2018 March

This project has received funding from the European Union Horizon 2020 Research and Innovation action under grant agreement No 649186

This Policy Brief is the result of the consultation carried out by Lunaria with the Civic Action Network, the network of the civil society organizations created within the ISIGrowth's project.

The context

Europe's growth after the Second World War was supported by an extensive industrial policy. Its objectives were the development of a large manufacturing base in the emerging industries of the 1950s and 1960s – steel, auto and chemicals, the typical sectors of 'Fordist' production – and, in the 1970s, the development of new activities in electronics, aircraft and biotechnology. At the same time, industrial policy provided telecommunications and transport networks, a crucial infrastructure for modern economies, and a stable provision of energy, which is essential in industrial countries with little energy resources. National policy tools that were adopted included an extensive role of state-owned enterprises; support to private firms through financial and investment aid, R&D funds, public procurement, market protection; specific support for the development of new firms, new technologies, major new products. At the European level, an active coordination of such policies took place since the very first steps of European integration with the creation of the Carbon and Steel Economic Community (CECA) in 1951 and of a free trade area for most industrial goods in the six original member countries of the European Economic Community (EEC) in 1957.

Then, starting in the early 1980s, the economic policy debate in Europe (and elsewhere) started being dominated by neoliberal views that argue that industrial policies are inefficient and inappropriate. The argument was that markets are able to operate more efficiently both in the short term and in the long term. As a result, the large state-owned firms were privatised in most countries, leading to extensive closing down of capacity, foreign takeovers and greater market concentration. Governments have largely left decisions on the evolution of the economy to markets – that is, to large multinational firms. Europe's policy has focused on global liberalisation of trade and financial flows, a deep liberalisation of its domestic markets, including public procurement, and monetary integration with the creation of the euro. The space for industrial policy at the national level has been drastically reduced and no integrated industrial policy has emerged at the European level. The result has been a general loss of policy influence on the direction of industrial change and development in Europe; in most countries this has meant a major loss of industrial activities in Europe.

This has been most evident in the periphery countries of the Eurozone. In a nutshell, since the mid-1990s, Germany has become stronger and more productive in high-value-added, higher-tech manufacturing (in conjunction with outsourcing to Eastern European countries), while southern European countries have become more strongly locked into lower-tech, lower value-added and, often, non-tradable activities. The weakening of industrial activities – and, more broadly, of economic growth – in the periphery has drastically reduced job opportunities, resulting in major losses of employment and income, a return of poverty, problems of social and territorial cohesion, renewed mass migrations within Europe, and a dramatic loss of political legitimacy of the EU. Since the crisis of 2008, a fundamental process driving such outcomes has been the concentration of economic activities and power in the countries of the core – Germany and few neighbouring countries integrated in its production system.

Such **a reshaping of Europe's economy** is driven by the restructuring of the international systems of production controlled by large firms and is affected by national and EU policies. Operating in the pursuit of short-term profits, market power and financial rents – and with no attention to increasing environmental constraints – the response of firms to the crisis has included the following: drastic downsizing and plant closing; reduction of R&D, innovation and investment; emergence of hierarchical production systems with extensive outsourcing and offshoring both in Europe's periphery and in emerging countries with cost advantages and a large potential for growth in domestic markets;

consolidation and acquisitions, leading to more oligopolistic market structures. These negative consequences have been concentrated in the countries of the periphery where the recession has hit hardest. Without growth, change is more difficult; Europe as a whole could be stuck in its traditional economic trajectory – with sluggish markets, a heavy environmental burden, cosmetic attention to climate change, and growing inequality – while other advanced and emerging countries may move faster towards new knowledge, new products and processes, and new sources of employment, supported by faster demand dynamics. The policy targets of Europe 2020 and the broader opportunity to develop in Europe a new trajectory of growth based on environmentally friendly activities and greater social justice would become more difficult to pursue.

Proposals from civil society

Trade unions, political forces and civil society groups have developed several proposals for action on industrial policy. These include the ETUC's *New Path for Europe*, the DGB's *Marshall Plan for Europe*, industriAll's *Manifesto to put the Industry Back to Work*, the Greens/EFA's *Green New Deal* and Transform! Europe's proposals for 'a Left industrial and investment policy for Europe', just to name a few (ETUC, 2013a; DGB, 2012; Greens/EFA, 2009; industriALL, 2014a; Transform!, 2015a). In 2014 the European Citizens' Initiative 'New Deal 4 Europe – For a European Special Plan for Sustainable Development and Employment' was launched, bringing together trade unions, civil society organisations and mayors of important European cities (New Deal 4 Europe, 2014). A detailed proposal on how industrial policy could be introduced in Europe has been provided by a report to the Rosa Luxemburg Foundation (Pianta et al., 2016; see also Pianta, 2014).

An EU-wide industrial policy could drive the rise of new environmentally sustainable, knowledge intensive, high skill and high wage economic activities. Specific activities that could be targeted include: (i) the protection of the environment, sustainable transportation, energy efficiency and renewable energy sources; (ii) the production and dissemination of knowledge, applications of information and communication technologies (ICTs) and web-based activities; (iii) health, welfare and caring activities.

A new EU-wide industrial policy is also needed in order to reverse the massive privatisations of past decades; an economy based on private, market-based activities, with decisions left to the short term interests of firms – where finance is playing a dominant role – has failed to sustain investment, employment and environment-friendly growth. Finally a new EU-wide industrial policy could become a major tool for addressing the urgent need for an ecological transformation of Europe

A systematic proposal for building an alternative industrial policy in Europe includes the following aspects:

- **A European policy, not just national ones**

  A full, integrated European industrial and investment policy, with a dedicated DG, is needed. The new industrial policy has to be firmly set within the European Union and – if required – within the institutions of the Eurozone. This is needed in order to coordinate industrial policy with macroeconomic, monetary, fiscal, trade, competition, regulatory and other EU-wide policies, providing full legitimation to public action at the European level for influencing what is being produced (and how).

- **A policy mobilising 2% of Europe's GDP**

  This policy has be significant in terms of the size of new resources that are mobilised, which should be about 2% of Europe's GDP for 10 years, about EUR 260 billion per year. An investment effort of about 2% of EU GDP appears to be feasible, considering the size and power of European institutions, and would be big enough to compensate (at the macroeconomic level) for the lack of private investment and low exports, effectively ending Europe's stagnation. New resources should be aimed at industrial and infrastructural policies.

- **Reducing the divergence between Europe's centre and periphery**

  This approach would ensure that industrial policy has a positive impact in the reduction of disparities among regions within countries and Europe as a whole. A practical way of assuring this is to pre-determine a criteria for regional and national distribution of resources. For instance, 75% of industrial policy funds could go to activities located in "periphery" countries (Eastern and Southern Europe, plus Ireland). At least 50% of the funds should be devoted to the poorer regions of such countries and 25% could go to the poorer regions of the countries of the "centre".

- **Mission oriented projects**

  An EU-wide industrial policy could drive the rise of new environmentally sustainable, knowledge intensive, high skill and high wage economic activities. Specific activities that could be targeted include: (i) the protection of the environment, sustainable transportation, energy efficiency and renewable energy sources; (ii) the production and dissemination of knowledge, applications of information and communication technologies (ICTs) and web-based activities; (iii) health, welfare and caring activities. For this purpose it's worth mentioning the report written by ISIGrowth's researcher Mariana Mazzucato at the request of the European Commissioner for Research, Science and Innovation, Carlos Moedas on how to maximise the impact of the future EU Framework Programme for Research and Innovation through mission-oriented policy.

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