

WORKSHOP

Industrial policy and Italy's National Recovery and Resilience Plan

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Industrial policy in Europe in the context of growing geo-economic and geo-political challenges

27/05/2022

Topics to be covered

- The Evolution of Industrial Policy (IP) in the European Union
- EU Industrial Policy in Numbers
- Macro-economic policy challenges and industrial policy
- EU Industrial Policy Efforts in the Light of Major Challenges Ahead
- EU industrial policy - new guiding concepts ('smart specialization', 'mission-oriented IP'; 'appropriate IP'; 'open strategic autonomy')
- Conflict/complementarity with EU competition policy
- Conjectures on the future

Evolution of EU Industrial Policy

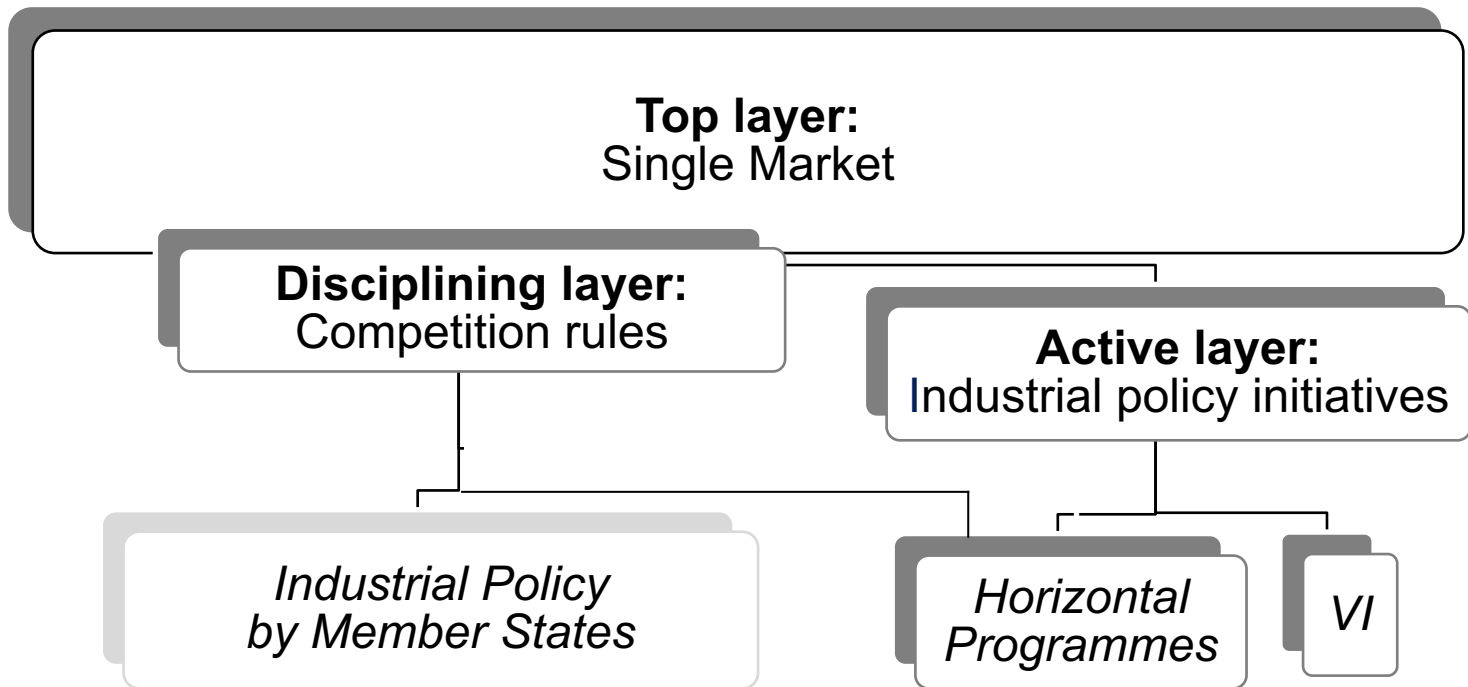
- Interventionist phase (1950-1980)
- Liberal Phase (1980-2005)
- 'Adapting' Phase (since 2005)

Characteristics of the three phases;

	1950-1980	1980-2005	2005-now
Member States	<ul style="list-style-type: none"> • ‘heydays’ of sector-specific industrial policies • Blend of interventions in sunset industries, high tech industries and public utilities. • Nurturing of national champions • Experimentation with ‘<i>European Champions</i>’ (Airbus, 1970) 	<ul style="list-style-type: none"> • Full shift of emphasis on framework and horizontal policies. • Policies influenced by ‘Washington Consensus’; gradual withdrawal of national subsidy policies • privatisation of utilities • active FDI attraction policies 	<ul style="list-style-type: none"> • ‘return’ of specific industrial policies resulting in an industrial ‘policy-mix’ • Industrial policies constrained by fiscal and competition rules • Initiatives towards ecological transformation (some MS)
EU level	<ul style="list-style-type: none"> • creation of the Common Market (1957) and the customs union (1960) • Competition rules in place (1957) but largely ineffective. • sectoral policies for coal, steel and nuclear energy 	<ul style="list-style-type: none"> • emergence of EU technology policy (ESPRIT, 1980) • tightening of EU competition policy incl. revision of state aid rules, addition of merger control. • European Economic Act • Lisbon Strategy (2000) focusing on (knowledge-based) competitiveness 	<ul style="list-style-type: none"> • Europe 2020 Strategy • Further focus on RTI policies • ICT sector programme • Strategic Investment Plans • Smart Specialisation Strategy institutionalised in regional policy • mission-orientated industrial innovation policies (planned) • Global Europe Strategy

Source: Authors’ representation

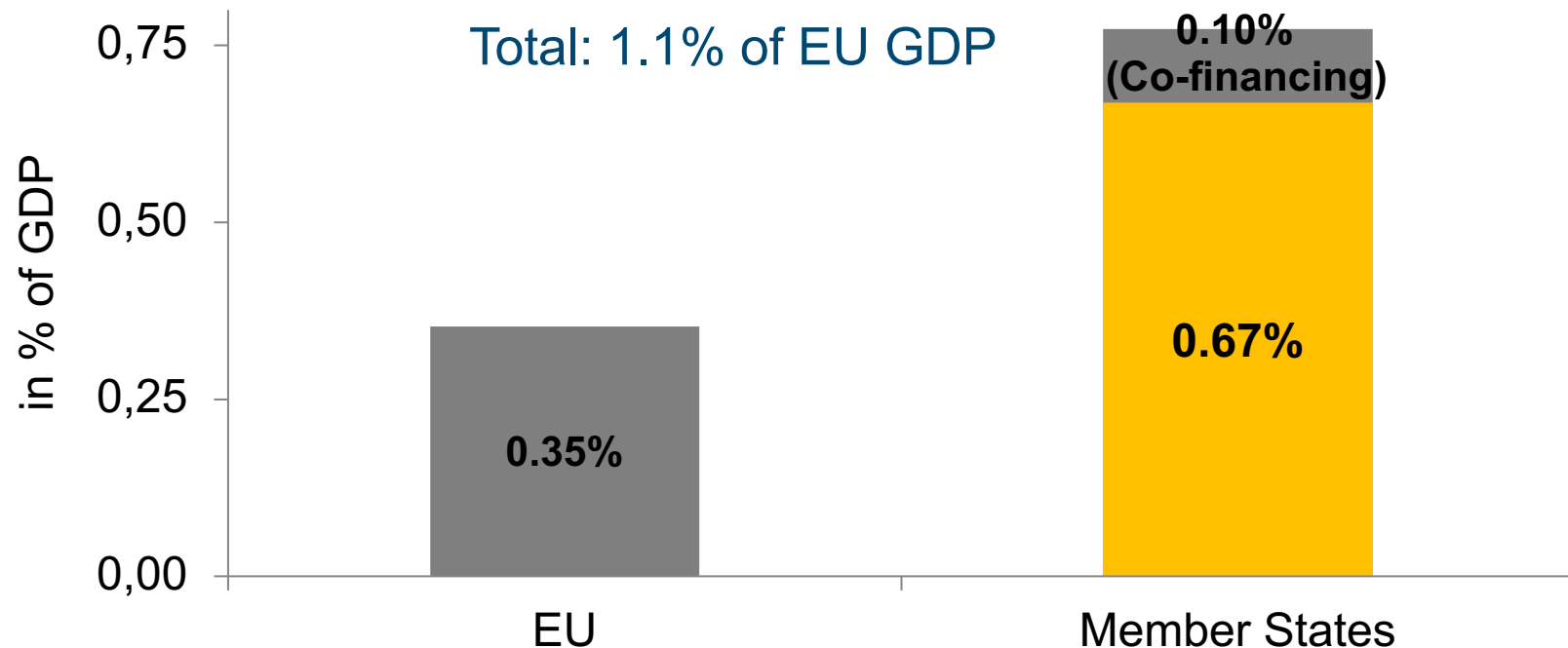
EU Industrial Policy Architecture in the 'Pragmatic Phase'



VI= Vertical initiatives, including projects of European interests

Industrial Policy in Numbers: Level dimension

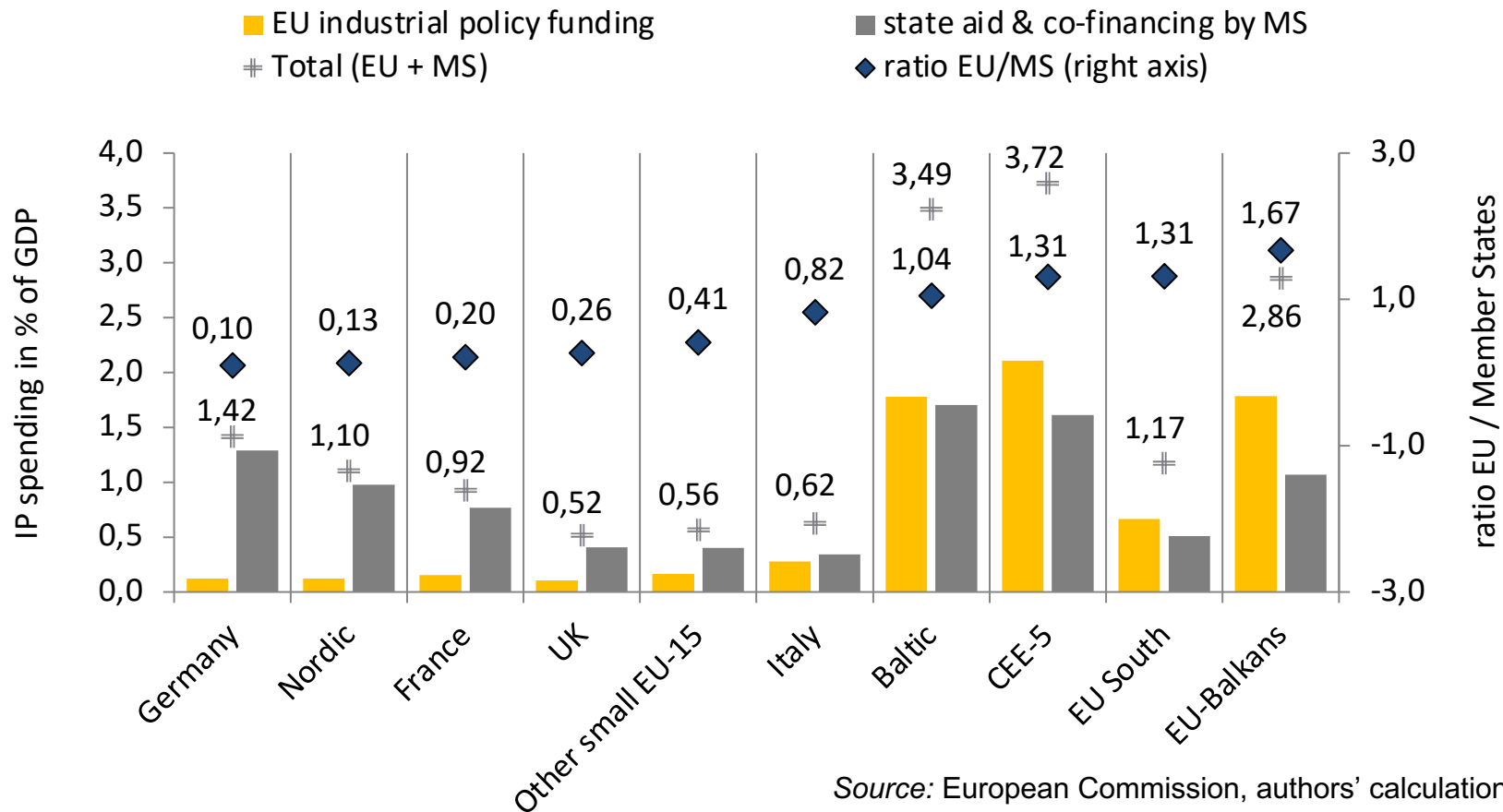
Spending on EU Industrial Policy, average 2014-2017 (% of EU GDP)



Note: EU funding is the sum of expenditure items related to industrial policy in the MFF over the years 2014-2017. Total actual funding by the ESIF funds are assigned to individual funds using the shares of these funds in the planned budget allocations in the MFF 2014-2020. Co-financing amounts by member states are estimated based on the ratio between planned allocations of EU spending and spending by Member States in the MFF 2014-2010. Numbers calculated on the basis of nominal expenditures (in per cent of GDP). National State Aid by Member States reflect the subsidy element in national state aid. *Source:* European Commission, authors' calculations.

Industrial Policy in Numbers: Country dimension

Spending on EU Industrial Policy by country, average 2014-2017



- Very high levels of industrial policy spending in 'new' MS
- EU level extremely important for 'new' MS

MFF 2021-27 and EURI-NGEU: spending structure

Commitment appropriations	Expenditures	Loans
EUR billion, in 2018 prices		
MFF 2021-2027	1,074	
EURI-NGEU 2021-2023 (paid until 2026)	390	360
Total	1,464	360
75% of total expenditures in 4 areas; 100% of loans in 1 area:		
1. Agriculture and Maritime Policy	24%	
2. Recovery & Resilience	23%	100%
3. Regional Development and Cohesion	20%	
4. Social Cohesion and Values	8%	
<i>Note: Expenditures include grants and provisions for guarantees.</i>		

The EU budgetary package 2021-2027 is a major step forward

- **EURI-NGEU enhances the MFF:**
 - Common EU response to COVID-19 impact
 - To advance cohesion, growth potential, climate-related structural change
 - Funded by common capital market borrowing
 - Backed by (suite of) pro-rata guarantees by MS for net repayments due 2027 to 2058
 - To fund repayment: Roadmap agreed for new OR
- **Stronger focus on climate policy:**
 - Raise overall climate target to 30% of total expenditures (MFF + EURI).
 - Fund 30% of EURI via issuance of 'green bonds'
 - New climate-specific program 'Just Transition Fund' (social support to exit climate-damaging production)

Comment: The EU budget remains tiny, even when including EURI-NGEU

- **Total expenditures (MFF + EURI-NGEU) amount to only 1.5% of EU GNI**
- These are dwarfed by national public expenditures of 50% of GNI.

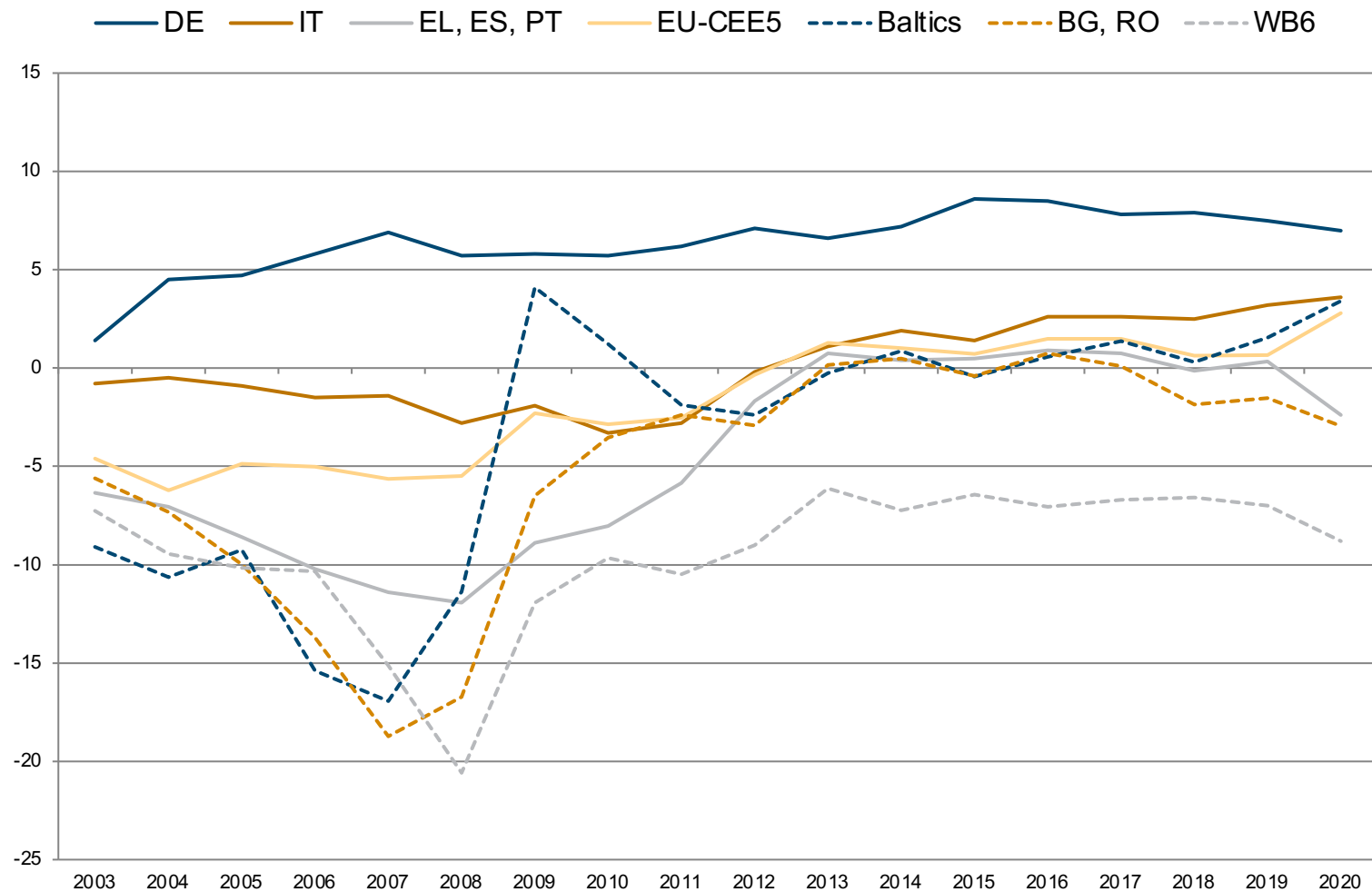
- **Compared to EU27 MFF 2014-2020 of 1.2% of GNI:**
- MFF 2021-2027 smaller by 0.1 ppt at 1.1% of GNI
- But: EURI expenditures add 0.4% of GNI
- → Total expenditures increase by 0.3 ppts to 1.5% of GNI

- **However, two areas face decrease of expenditures:**
 - Agriculture (Direct payments, Rural Development)
 - External action (Neighborhood, Development Coop., Humanitarian Aid)

Macro-economic challenges and industrial policy

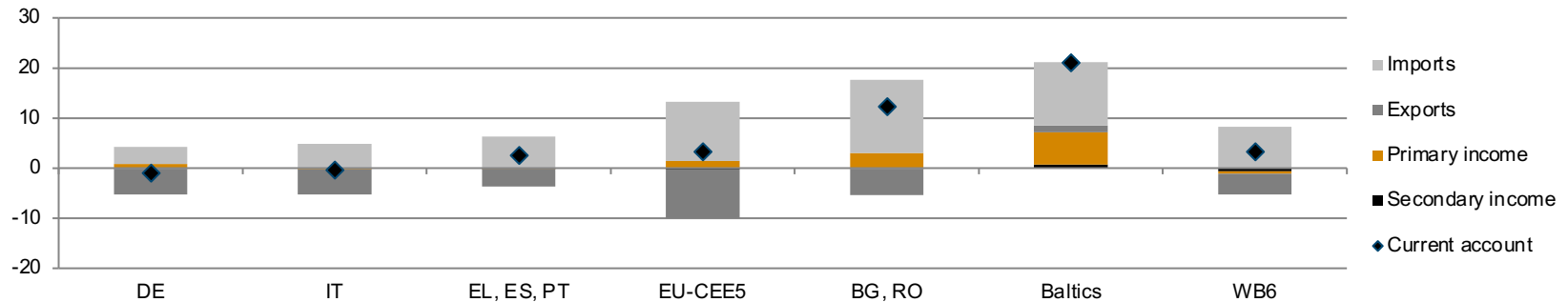
- Two issues to be tackled jointly:
 - Macroeconomic imbalances
 - Demand and supply-side issues both matter
- Hence:
 - European fiscal policy framework/policy and
 - National and EU level industrial policy matter
- ‘North-South’ divergences are central to both policy domains

Development of current accounts, 2003-2020

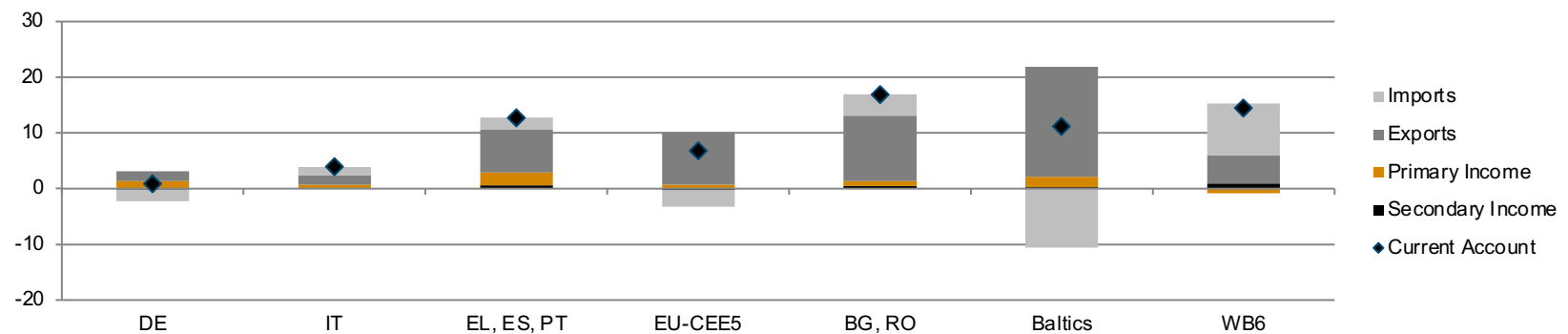


Composition of the current account (% of GDP) – changes in sub-periods)

■ 2008-09

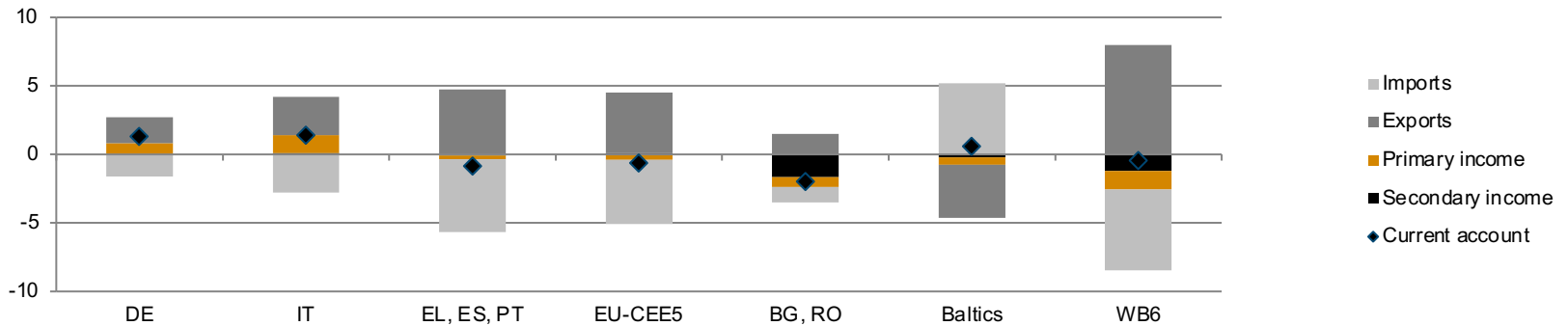


■ 2009-13

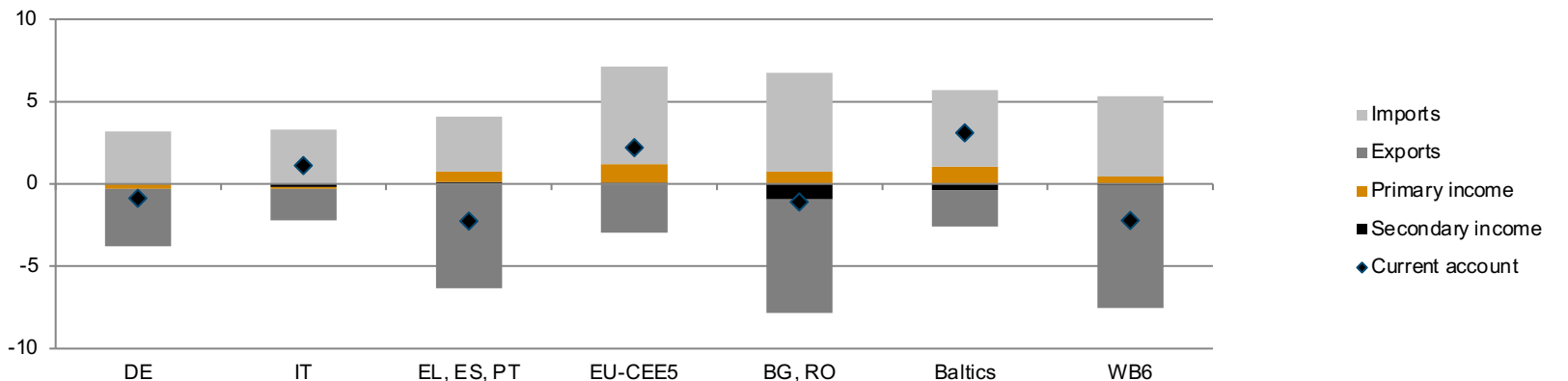


Composition of the current account (% of GDP) – changes in sub-periods)

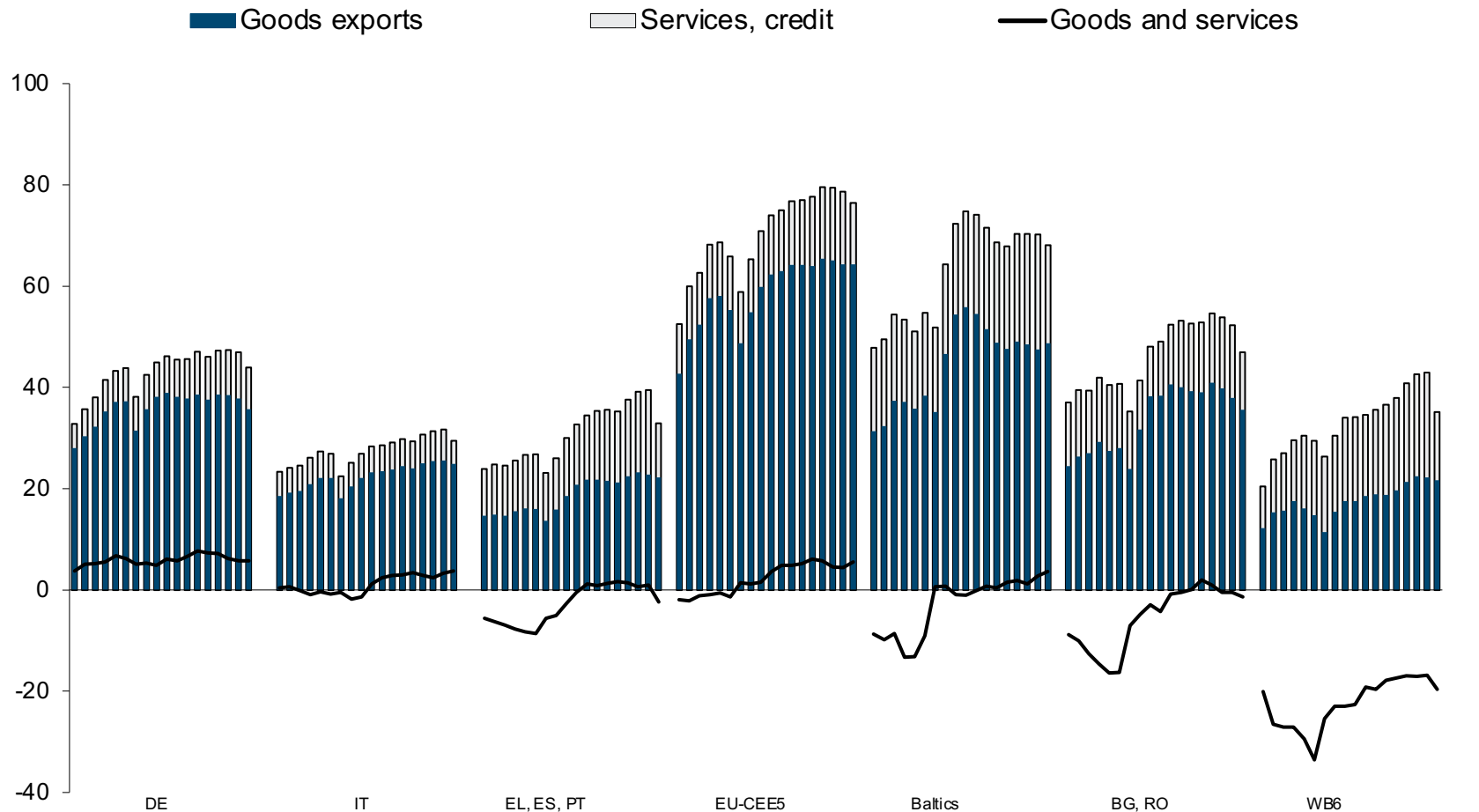
2014-18



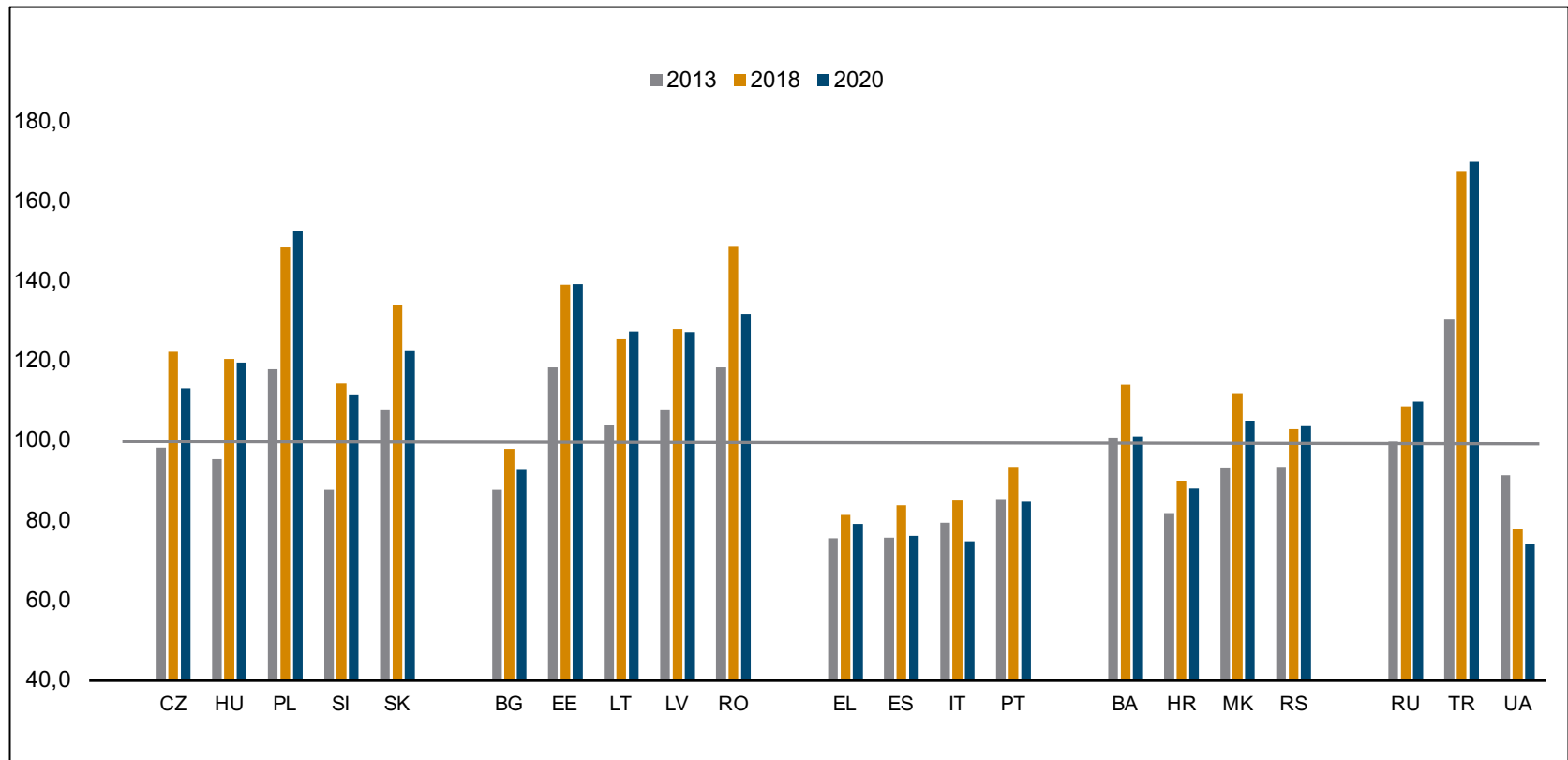
2019-20



Exports in % of GDP (goods and services), 2003-2020

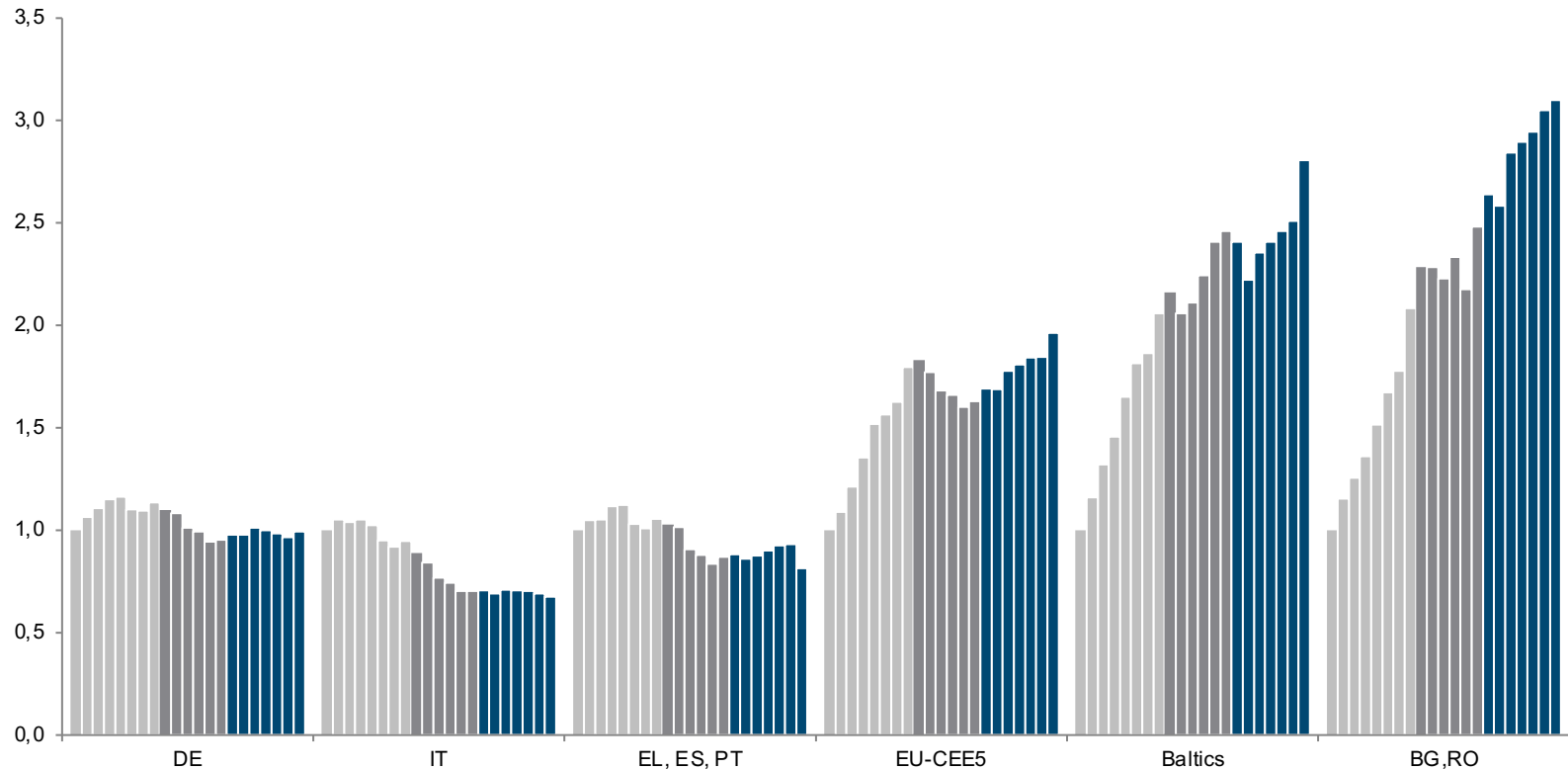


Development of industrial production; 2013, 2018, 2020 2008=100

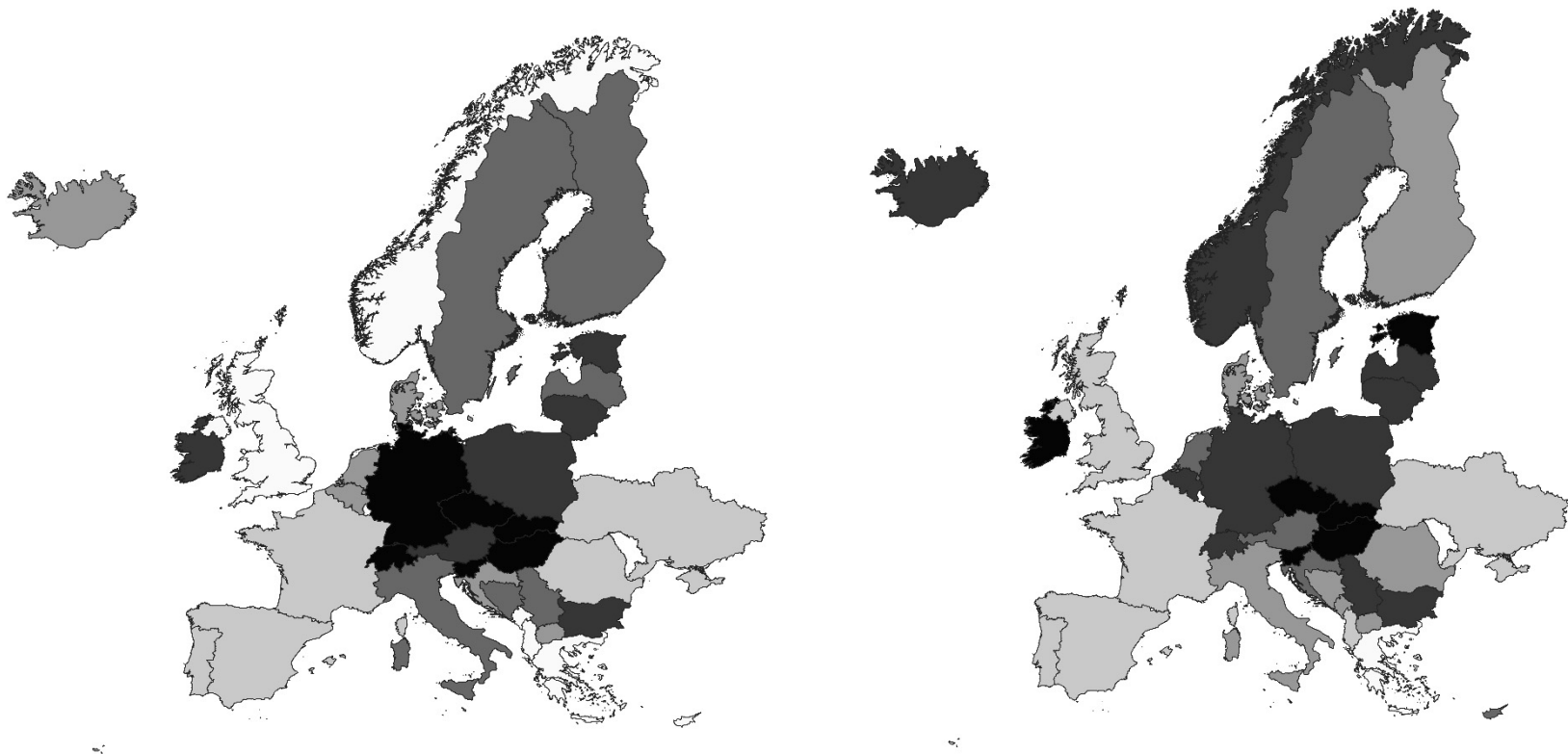


Export market shares, 2000-2020 (2000 = 1.0)

Goods and services % of world total exports, 2001-2008; 2009-2013, 2014-2020



Countries' shares in 'value added exports' (VAX) – in manufacturing (rhs) and in total European exports

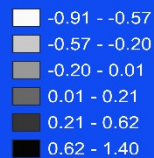


**Value added export shares
divided by GDP shares**

2014

Manufacturing

Category

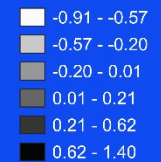


**Value added export shares
divided by GDP shares**

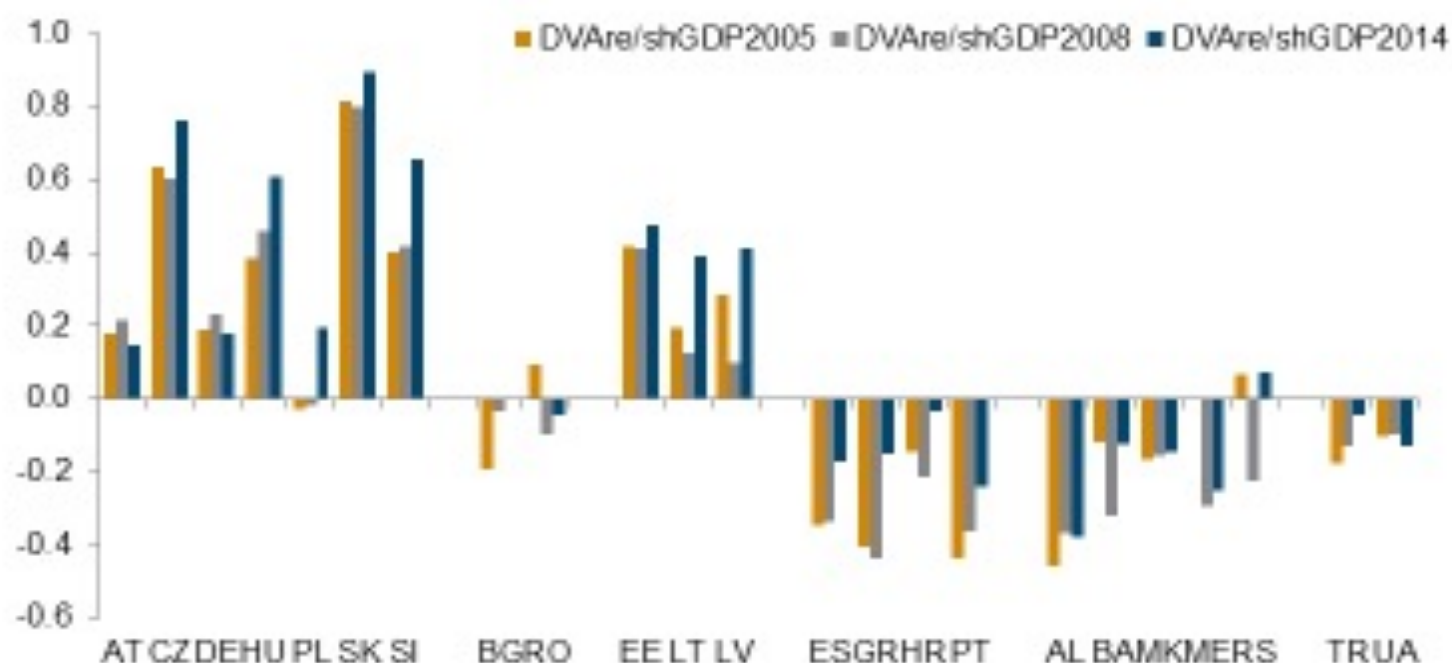
2014

Total economy

Category



Shares of European LMIEs in cross-border production networks (divided by their shares in European GDP) – 2005, 2008 and 2014



Note: The indicator DVAre refers to cross-border production linkages, with a country's trade flows – measured in value added contributions – crossing at least twice a country's borders; for details see Friesenbichler et al. (2017; Chapter 4).

Source: wiiw Annual Database incorporating national and Eurostat statistics. WIOD, own calculations.

Challenges/aims of EU Industrial Policy as of 2022

1. **Keep pace at technology frontier** with technologically most advanced economies
2. Meet challenge of fast **catching-up emerging/emerged economies**
3. Industrial policy to serve **convergence and cohesion** within the EU and towards its neighbourhood
4. Deal with challenges of Paris agreement on **climate change** and sustainability issues more generally (**'New Green Deal'**)
5. New challenges in the light of the **Covid-19 crisis** and changing global environment (**'strategic autonomy'**; trade conflicts/block formation etc.)

EU Industrial Policy - new guiding concepts and challenges

1. 'smart specialization' (*Foray et al*);
2. 'mission-oriented IP' (*Mazzucato*);
3. 'appropriate IP' (Landesmann/Stoellinger);
4. conflict/complementarity with EU competition policy,
5. EU trade and investment policy ('new balance between openness and protection'; *EPRC*)

EU industrial policy efforts & major challenges

- Technological leadership
 - RDI support programmes (Horizon 2020) predominantly used by countries with strong national innovation systems
 - Dominance in policy formulation at EU level
- Competition from emerging markets
 - Little specific action in the realm of industrial policy apart from education and training support programmes
- Internal cohesion
 - Generous funding via ESIF but effectiveness disputed (mixed evidence)
- Climate change and environmental degradation
 - Active industrial policy measures mainly taken at MS level
 - EU level: 'green' IP are innovation policies + regulations
 - Potential for linking with technological leadership and define missions

Conclusions

- EU construct requires **careful integration of fiscal and industrial policy frameworks and aims**
- They have to jointly tackle macroeconomic imbalances within the EU/EZ over a longer-term horizon
- Macro-economic imbalances can be of a **short-term** variety ('asymmetric shocks') – for this ECB intervention and fiscal supports are the correct answer
- For **longer-term 'supply-side' divergences** a targeted integration of fiscal policy programmes (emphasizing composition of spending programs) and structural/industrial policy is appropriate
- Industrial/innovation policy has to **embrace cohesion/convergence** issues ('**appropriate industrial policy**') apart from the other aims

- **'The new North-South Divide in Europe – Can the European Convergence Model be Resuscitated?'**, in: Jan Fagerberg, Staffan Laestadius and Ben R. Martin (eds), *The Triple Challenge for Europe: The Economy, Climate Change and Governance*, Chapter 3, Oxford University Press, 2015, pp. 60-87; <https://global.oup.com/academic/product/the-triple-challenge-for-europe-9780198747413?q=Fagerberg&lang=en&cc=fi#>
- **'External Imbalances and European Integration'**, in: M.C. Marcuzzo, A. Palumbo, P. Villa (eds): *Economic Policy, Crisis and Innovation: Beyond Austerity in Europe*, Chapter 5, Routledge, Taylor & Francis Group, New York, 2019, pp. 84-112; <https://www.routledge.com/Economic-Policy-Crisis-and-Innovation-Beyond-Austerity-in-Europe-1st/Marcuzzo-Palumbo-Villa/p/book/9780367260293> An earlier version of this type of analysis can be found in a WP with D. Hanzl: <https://wiiw.ac.at/correcting-external-imbances-in-the-european-economy-p-3876.html>
- **'Agglomeration of European Industries'** (with J. Schroeder), Ch. 13 in: A Oqubay and J Y Lin (eds.): *The Oxford Handbook of Industrial Hubs and Economic Development*; Oxford University Press, 2020; <https://global.oup.com/academic/product/the-oxford-handbook-of-industrial-hubs-and-economic-development-9780198850434?q=Oqubay&lang=en&cc=fi#>
- **'The European Union's Industrial Policy'** (with Roman Stoellinger); in: H-J Chang, C Cramer, R Kozul-Wright, A Oqubay (eds): *Handbook of Industrial Policy*; Oxford University Press, 2021. <https://global.oup.com/academic/product/the-oxford-handbook-of-industrial-policy-9780198862420?cc=at&lang=en&#>
- **'Structural Change, Trade and Production Networks: An 'Appropriate Industrial Policy' for Peripheral and Catching-up Economies'** (with Roman Stöllinger), *Structural Change and Economic Dynamics*, Vol. 48, March 2019, 2019, pp. 7-23; <https://www.sciencedirect.com/science/article/abs/pii/S0954349X17302382> A WP version can be found as: <https://wiiw.ac.at/structural-change-trade-and-global-production-networks-p-4525.html>
- **'The European Union's Industrial Policy: What are the Main Challenges?'** (with Roman Stöllinger), wiiw Policy Note/Policy Report, No. 36, Vienna, January 2020; <https://wiiw.ac.at/the-european-union-s-industrial-policy-what-are-the-main-challenges-p-5211.html>