



The Changing Face of Industrial Policy in Europe

Andrea Szalavetz

European industrial policy exhibits elements of both continuity and change. The series of industrial policy-related Communications² continuously reiterate the crucial importance of manufacturing – irrespective of the fact that the sector's share of employment keeps shrinking.¹ The European Commission regularly issues Communications about European industrial policy principles, the role of the manufacturing sector, changes in policy priorities and identifies the key challenges facing the European manufacturing industry.²

This short notice surveys the changing properties of European industrial policy and analyzes its present features in light of the most recent Communication (2010: An Integrated Industrial Policy...). In the course of industrial policy's move from a sectoral to a horizontal approach, over the past decades the EU has come very close to the horizontal extreme. Ironically this jeopardizes successful strategy implementation. However, a return to an enhanced sectoral focus seems unlikely.

As is well-known, sectoral aspects, i.e. the transformation of basic industries such as coal and steel,

¹ Between 1995 and 2007 the total (EU27) employment share of manufacturing shrank by 0.5 %. The sector's contribution to EU27 value added was 17.1 % in 2007. (Source: EU Manufacturing Industry: What are the Challenges and Opportunities for the Coming Years?) http://ec.europa.eu/enterprise/policies/industrial-competitiveness/economic-crisis/files/eu_manufacturing_challenges_and_opportunities_en.pdf

² Some examples for important recent documents:

European Commission (2002): "Industrial policy in an enlarged Europe" (COM 2002:714)

European Commission (2005): "Implementing the community Lisbon programme: A policy framework to strengthen EU manufacturing—towards a more integrated approach for industrial policy" (COM 2005: 474)

European Commission (2010): "An Integrated Industrial Policy for the Globalisation Era Putting Competitiveness and Sustainability at Centre Stage" (COM 2010: 614)

were the key issues in the early stages of European integration. Later, the focus of EU-wide industrial policy shifted to more technology-intensive sectors (in Soete's wording, the 1970s and 1980s marked a *shift from low to high-tech industrial policy*).³ But the sectoral approach to competitiveness promotion hardly changed. It was only in the late 1980s that attitudes toward sectoral intervention started to change.

In contrast to the policy of picking winners, identifying and targeting key strategic sectors (mainly high-tech ones) and selecting and promoting large industrial programmes – typical of the 1970s and 1980s⁴ though to a significantly lesser extent than in the so-called developmental Southeast-Asian economies –, in the 1990s and early 2000s the Commission adopted a primarily horizontal approach. In this reformed context, sectoral intervention was justified only in cases where markets failed due to externalities or complex coordination problems. The main objective of industrial policy was to facilitate adjustment to structural change, create favourable framework conditions for industry and bolster European industrial potential by focussing on research, development and innovation.

In the light of enhanced globalisation, intensifying global locational competition for both manufacturing and R&D activities and the perceived de-industrialisation and erosion of competitiveness, the 2000s marked a cautious acceptance of (but not a return to) specific sectoral aspects. Recognising that specific industrial sectors need specific policies, Communications in the mid-2000s reflected a kind of *matrix*

³ Soete, L. (2007): From Industrial to Innovation Policy. *Journal of Industry Competition and Trade*, vol. 7, No. 3-4

⁴ The European Union has always featured remarkable heterogeneity in terms of the importance of sectoral aspects, with France at one extreme and the UK or the Netherlands at the other.

*approach*⁵ according to which sector-specific initiatives were designed and implemented.

However, the principal policy focus remained horizontal in nature. The role of industrial policy was defined in terms of: 1) managing structural change, 2) focussing on research and innovation, 3) fine-tuning the regulatory framework 4) promoting SMEs, entrepreneurship and cluster development, as well as 5) placing an emphasis on EU-level economic diplomacy in order to promote the EU's market access strategy.⁶ Nevertheless, the *matrix approach* label applies to the perception of industrial policy in the mid-2000s since, in addition to cross-sectoral initiatives, the Commission also proposed specific initiatives for individual sectors depending on the priority issues for each sector.

At the same time however, the sectoral characteristics of industrial policy began to become increasingly blurred: industrial policy – as a key element of the Lisbon agenda combining competitiveness with social and environmental goals – tried to incorporate all the major economic, societal and environmental objectives of the European Union.

In an era of manufacturing 'tertiarization', industrial policy – as outlined in the EU2020 strategy – beyond strengthening EU competitiveness in manufacturing – focuses increasingly and justly on manufacturing-related business services. At the same time however, the strategy also attempts to underpin the recovery of growth and jobs, and contributes to a variety of different social objectives as well (e.g. restoring health, and promoting the sustainability of the social model (!)). In addition, it emphasises the necessity of a transition to a low-carbon economy and enhanced resource efficiency. The all-encompassing character of industrial policy is exemplified by an excerpt from the most recent Communication on industrial policy (An Integrated Industrial Policy...: p. 3):

A vibrant and highly competitive EU manufacturing sector can provide the resources and many of the solutions for the societal challenges facing the EU, such as climate change, health and the ageing population, and the development of a healthy, safe

and secure society and thriving social market economy.

In an effort to combine horizontal and sectoral objectives – not omitting individual important manufacturing sectors, but at the same time moving beyond the outdated sector-based approach – the new Communication assigns horizontal objectives to each individual manufacturing sector.

The resulting document has genuinely become all-encompassing. This prevents it however from being sufficiently focussed. Each individual manufacturing sector is mentioned by name (to demonstrate they are not forgotten), each broad societal, environmental, and economic challenge the European Union faces is mentioned, and solutions, with the help of industrial policy instruments, are proposed.

This type of "integratedness" (read "*complexity without detail*") results however in an overly general strategy design. Past horizontal objectives (e.g. SME- and entrepreneurship promotion, research, technological development, cluster-based development etc.) have been complemented with new ones that in turn are even more "horizontal", i.e. even less specific.

In principle, EU-experts have found a good solution for the challenging fact that sector-based intervention has been swept away: "bringing together the horizontal basis and sectoral applications." In practice however it is the *horizontal basis* that ought to be *somewhat more focussed* and in the case of industrial policy design: more related to *industrial policy objectives*. More focus could be achieved – while at the same time not losing the approach of "bringing together the horizontal basis and sectoral applications" – if the horizontal basis were restricted to technological objectives. Concentration on the generation, adoption and diffusion of selected enabling technologies is relevant to manufacturing while at the same time contributing to the accomplishment of broader goals: resource efficiency, competitiveness, smart growth etc.

An industrial policy that tries to provide solutions for every single challenge the EU27 economies and societies face will surely not deliver in terms of competitiveness, i.e. in terms of the very essence of industrial policy.

* * * * *

⁵ Aiginger, K. – Sieber, S. (2006): The Matrix Approach to Industrial Policy. *International Review of Applied Economics*, vol. 20, No. 5

⁶ Zourek, H. (2007): The European Commission's New Industrial Policy in an Integrating and Globalizing World. *Journal of Industry Competition and Trade*, vol. 7, No. 3-4