Industrial and innovation policies in Europe

Mario Pianta
University of Urbino

Mario Pianta is professor of economic policy at the University of Urbino, and has been a visiting fellow at the European University Institute, the London School of Economics and the Sorbonne university. He works on innovation, industries, inequalities and international economic policy, and has published widely in international journals.

A doubling of national and EU resources for industrial and innovation policies is needed to overcome an economic model based on financial rents, focussing on information and communication technologies, ecological restructuring and health services, for which new forms of finance must be tapped, including the issuing of Eurobonds.
The aftermath of the crisis in Europe will depend on the forces at work in reshaping the economy. The dominant players, so far, are large firms with international systems of production. Their responses to the crisis have included downsizing and plant closure; reduction of R&D, innovation and investment; consolidation and acquisitions, further international relocation of production towards industrialising countries. Their decisions affect the possibilities of economic recovery and also of a shift towards ‘greener’ production. If decisions are left to big business and ‘market forces’ alone, Europe risks being stuck with old products, low innovation, slow demand growth, heavy environmental impact and growing inequality.

There is no need, however, to accept such an outcome as inevitable. Today’s challenges can be addressed by a return to and reinvigoration of industrial and innovation policies. In Europe, they shaped the highly successful expansion of industrial production from the 1950s to the 1970s. In newly industrialising countries they are combining public and private efforts to acquire technologies, invest in new activities, and expand foreign markets. Industrial and innovation policies fell out of fashion in Europe in the last two decades, when governments’ liberalisation and privatisation policies largely left decisions on the evolution of the economy to markets. The argument was that markets are efficient in allocating resources and in making decisions on the new activities to be developed. Policies lost their selectivity and were limited to automatic mechanisms, such as across-the-board tax incentives for R&D and acquisition of new machinery, or incentives to producers and consumers of major goods (such as cars). The result has been no change in the direction of industrial activities.

A new generation of industrial and innovation policies

The principles for industrial and innovation policies are simple enough. They should favour the evolution of knowledge, technologies and economic activities towards directions that improve economic performance, social conditions and environmental sustainability. They should support activities characterised by learning processes, technological change and growth of demand and productivity.

The policy framework should reconstruct a virtuous relationship between the generation and use of knowledge, research, innovation, investment and production, that is centred on a view of knowledge as a (largely) public good. Innovation relies on open, shared knowledge, supported by basic research, largely carried out in universities and public R&D centres, funded by public money. As publicly accessible knowledge bases expand, the protection of private intellectual property rights should be relaxed. Investment in new fields is marked by uncertainty and has to rely on public intervention for orienting the evolution of standards, markets, access to finance, coordination among competitive producers and, where necessary, with public enterprises carrying out production and providing services.

Industrial and innovation policies can rely on different policy tools. On the supply side, public funds can support selected R&D, innovation and investment efforts. Public and private institutions can support business start-ups in key fields with credits and venture capital. A new role could be played by public and
community enterprises in fields where public goods and public procurement are prevalent. On the demand side, far-sighted public procurement, the organisation and regulation of markets with high growth potential, and support and incentives for early users on new technologies could help ‘pull’ innovation and investments, shifting production and consumption towards more sustainable patterns. Finally, policies have to build closer relationships among all actors of national systems – firms, financial institutions, universities and policymakers – helping to coordinate decisions of public and private actors. Public demand could direct research and investment decisions in fields such as information and communications technology, environmentally friendly production, and the health sector and social services. Clear priorities for these areas include:

Knowledge and ICTs. ICTs and web-based activities are reshaping the boundaries between the economic and social spheres, as the success of open source software, copyleft, wikipedia, peer-to-peer clearly show. Policies should encourage the practice of innovation as a social, cooperative and open process, easing the rules on the access and sharing of knowledge, rather than enforcing and restricting the intellectual property rules designed for a previous technological era.

Environment and energy. The technological paradigm of the future will be based on ‘green’ products, processes and social organisations that use much less energy, resources and land, and have a much lighter effect on climate and eco-systems. Such a perspective raises enormous opportunities for research, innovation and new economic and social activities; a new set of coherent policies should address these complex, long-term challenges.

Health and welfare. Europe is an aging continent with the best health systems in the world, rooted in its nature as a public service. Advances in care systems, instrumentation, biotechnologies, genetics and drug research have to be supported and regulated considering their ethical and social consequences. Social innovation should be encouraged in welfare services with a greater role of citizens, users and non-profit organisations, renewed public provision and new forms of self-organisation of communities.

All these fields are characterised by labour-intensive production processes and by a requirement of medium and high skills; innovation in such activities may lead to new products and services that expand output and ‘good’ jobs; new processes may increase efficiency by reducing materials and energy use more than labour. The result would be a wave of technological and industrial change that is ‘employment-friendly’ and able to reduce unemployment.

How to pay for policies

Governments and the EU should devote to these policies much larger resources – probably twice as much, on average, as they currently do. Deficit spending for these purposes should be allowed, bypassing the constraints of the European Treaties, because such efforts provide a new foundation for European economic strength.

Part of the resources can be provided by a national tax system that should be adjusted to reflect the new priorities, shifting the tax burden from labour
to activities with high use of non-renewable resources, including a carbon tax and higher VAT rates on selected goods that would provide clear incentives to shift to sustainable technologies and products. Personal taxation should include more progressive tax rates on higher incomes and a wealth tax on the richest social groups.

Part of the funds for industrial and innovation policies could be raised through targeted public debt. At the EU level projects could be financed by emitting bonds guaranteed by the EU budget; a role of the European Central Bank in such efforts should also be considered. At the national level, governments could set up agencies funded by public bonds with the mission to provide venture capital, minority stakes, investment credits and R&D support to new activities in the above fields. More funds may come also from the banking sector that could be invited to participate in such new financing programmes. Once these new economic activities start growing in European countries, private equity and lending may flow rapidly, and the public role could then be reduced.

Decisions on the future of the industrial structure in Europe have to be brought back into the public domain. A new generation of policies have to overcome the limitations and failures of past experiences, such as collusive practices between political and economic power, heavy bureaucracy, lack of accountability and entrepreneurship. They have to be creative and selective, with decision-making mechanisms that are more democratic and inclusive of different social interests. These new approaches to industrial and innovation policies could play a key role in pulling Europe out of the current crisis. The politics behind such a new departure has to be based on a wide social consensus over the distribution of the productivity and welfare gains deriving from new technologies and economic activities. In the past decades, firms have largely benefited from higher profits and financial rents. Now, workers and citizens should obtain the benefits of new secure jobs, higher real wages, greater economic and social rights and a better quality of work and life.

Further reading


