Journal für Entwicklungspolitik XXXIV 3/4-2018, S. 4–14

https://doi.org/10.20446/JEP-2414-3197-34-3-4

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From Mainstream to Progressive Industrial Policy

Since 2000, industrial policy has celebrated a remarkable comeback in the political discourse, as well as in economic research. While industrial policy had played a crucial role in the post-WWII period in Fordist states in the Global North and developmental states in the Global South alike, this changed with the rise of neoliberalism in the 1980s. At least on the discursive level, state intervention in industrial development was banished because of its distorting effects on the 'natural' economic equilibrium (Stiglitz et al. 2013: 6; Warwick 2013: 8). In practice, however, many countries of the Global North continued to implement industrial policies in a concealed and partly modified manner. At the same time, they prevented many countries of the Global South from following suit through the enforcement of the Washington Consensus and Structural Adjustment Programs (SAPs) (Chang/Andreoni 2016).

However, as early as the 2000s, mainstream economics itself provided arguments for a partial return of industrial policy (Warwick 2013: 18ff.). Industrial policy could, according to the market failure argument, play a role closely confined to those few exceptional areas where neoclassical theory assumes that market mechanisms do not lead to optimal allocation (Rehfeld/Dankbar 2015: 491). In order to correct these 'market failures', industrial policy should, for instance, support research and development (R&D) in cases of so-called R&D and information externalities. These occur when research and development activities "generate positive spillovers that are not fully captured by the original investor" (Rodrik 2014: 470) or in the case of pioneer firms which advance into new fields where they generate information for other firms without, however, being adequately rewarded for the extraordinary costs of their 'first move'.

Another precisely defined area of activity for industrial policy, according to these mainstream approaches, is to foster efficient market allocation through horizontal competition policy, such as through anti-trust legislation (Chang/Grabel 2004: 71ff., Stiglitz et al. 2013, Nübler 2011: 4).

Beyond these areas, however, the assumption persisted that industrial policy would be ultimately futile due to 'government failure', as the state lacks both information and capacities to design and to implement effective industrial policy strategies (Warwick 2013: 23). As a result, the government failure argument assumes that state agencies supposed to carry out industrial policy are incapable of 'picking winners', i.e. of deciding which firms deserve government support and which do not. They are also, due to the selective character of industrial policy, prone to corruption and to being captured by powerful industries that use public money for their particular ends instead of creating economic and societal benefits for the majority of the population (Rodrik 2008: 7).

Nonetheless, despite the neoliberal attack, industrial policy never entirely disappeared; in the Global South, several Latin American countries, such as Argentina, Brazil and Mexico, continued to apply industrial policy strategies (Rodrik 2004: 15ff.). The so-called Newly Industrialised Countries in East Asia, particularly Taiwan and South Korea, managed to change their position in the hierarchical international division of labour, to a significant extent by relying on industrial policy strategies (Chang 2002, Wade 1990). And even capitalist core economies in the Global North, often considered as the heartland of neoliberal market orientation – particularly the USA (Mazzucato 2015) – continued to implement economic policy programmes to support and create specific industries, but did not label these explicitly as industrial policy (Lin/Monga 2013: 20).

1. The rehabilitation of industrial policy

Thus, governments around the globe continued to discuss and practise specific forms of industrial policy long before the oft-proclaimed comeback of industrial policy. Nevertheless, the revival of the term in recent years has significantly broadened the scope of the debate. In particular, Dani Rodrik, Joseph Stiglitz and Justin Lin rehabilitated industrial policy without, however, thoroughly breaking with the neoclassical framework that initially justified the disavowal of industrial policy in the majority of areas (Chang/Andreoni 2016: 3). Rodrik, in particular, challenged the 'government failure' argument, shifting the terms of the mainstream debate from the "why" to the "how" of industrial policy by arguing that 'government failure' can be avoided by a specific institutional design of industrial policy (see also Warwick 2013: 18). To this end, the 'embedded autonomy' of industrial policy bodies and 'letting losers go' instead of 'picking winners' are crucial (Rodrik 2008: 26ff.). If industrial policy bodies manage to attain "embedded autonomy", a concept originally developed by Peter Evans (1995), they dispose over the in-depth knowledge of industrial sectors and production but are not prone to being captured by specific capital fractions, thus forming so-called 'pockets of efficiency' within the state (Whitfield et al. 2015: 20). This, in turn, enables them to formulate and execute strict evaluation criteria and performance targets. By relying on these criteria and targets, they are not burdened with the onerous task of 'picking winners', but they make sure that funding is withdrawn in case of non-achievement (see also Chang/Grabel 2004: 76ff.).

Besides Rodrik's theoretical intervention, Justin Yifu Lin, the first chief economist of the World Bank from the Global South, has significantly contributed to the return of industrial policy into the mainstream debate. Against the background of his New Structural Economics, which was often perceived as a paradigm shift in relation to the World Bank economics of the Washington Consensus (critically Fine/Van Waeyenberge 2013), Lin re-introduced industrial policy as a development strategy. Simultaneously, however, he outspokenly distanced himself from the strategies of the 'old' structuralism of the 1950s and 1960s (such as import substitution or selective decoupling from the world market, cf. Beigel 2015). The industrial policy strategies of 'old' structuralism, Lin asserts against the big-push argument, were doomed to fail because these strategies aimed at emulating the industrial development of the industrialised countries in the Global North despite the "natural disadvantage [of developing economies] in heavy manufacturing industry" (Lin/Monga 2013: 30). Due to this 'natural disadvantage', large industrial plants promoted by industrial policy but without effective domestic demand and without competitiveness for exports were not viable and ultimately too costly to sustain (ibid.).

Thus, instead of trying to catch up by defying comparative advantages, Lin argues for a world market-oriented industrial policy development strategy which only deviates from a country's comparative advantage to a small degree (for a critique of this argument see below, and Chang 2013).

With this strong emphasis on world market integration, Lin's approach is therefore compatible with another crucial strand of discussion running across the debate on industrial policy, namely Global Value Chains (GVC) and industrial upgrading as a perspective of development (for an overview see Plank/Staritz 2009, Gereffi/Korzeniewicz 1994). Initially, the World Systems Theory introduced the commodity chain approach to understand the reconfiguration of centre-periphery dynamics in the increasingly globalised world economy (Hopkins/Wallerstein 1977). Gradually, however, the focus of the debate shifted to questions of business economics, such as inter-firm networks and development potentials for individual firms within GVCs. While critical perspectives, particularly coming from the Global Production Networks approach rooted in geography, analyse power relations as well as class struggles along transnational GVCs and production networks, the dominant industrial policy and development paradigm in the GVC debate remains focused on industrial upgrading, i.e. moving up the value chain into areas where more value added can be 'captured'. Accordingly, hooking into GVCs is deemed more feasible, as it does not require countries to establish entire sectors with complex intra-sector divisions of labour on their own, while at the same time accruing knowledge about complex production processes (Bair 2005, Chang/Andreoni 2016: 34).

On the political and institutional level, the "normalizing industrial policy" (2008), as famously put by Dani Rodrik in a study for the World Bank, has various manifestations. Institutions which traditionally advocated the Washington Consensus free-market strategies, such as the World Bank or the OECD, have been significantly shifting their position on industrial policy (Plank/Staritz 2013, Lin/Monga 2013: 30). Moreover, emerging economies in the Global South such as India, Brazil and China adopted far-reaching industrial policy strategies (Warwick 2013: 9-10). In the EU, the Europe2020 strategy from 2010 announced an "industrial policy for the globalisation era" (European Commission 2010), and the European Commission (2014, see also 2017) proclaimed an "Industrial Renaissance" through industrial policy, particularly considering the persistent structural imbalances revealed by the Eurozone crisis.

2. Types of industrial policy

Before we turn to the discussion on progressive industrial policy, it is important to clarify what we mean by industrial policy. Surprisingly, it is far from clear what the term 'industrial policy' stands for (for a comprehensive overview of different definitions and taxonomies, see Warwick 2013: 14ff.). Of course, definitions for all policy fields such as social policy or environmental policy vary, but industrial policy is a particularly fuzzy concept. The most common, rather broad definition refers to industrial policy as government policies which aim at affecting the structure of an economy (Stiglitz et al. 201: 2). To this end, it is possible to apply a wide variety of industrial policy instruments: direct subsidies to specific firms or sectors, tax breaks, selective credit policies and capital allocation, trade subsidies or and price controls.

Against this background, there are different taxonomies which classify various types of industrial policy (Warwick 2013: 14ff.). On the one hand, economic theory typically differentiates between horizontal industrial policy and vertical (or selective) industrial policy. While horizontal industrial policy, particularly prevalent under neoliberalism and often synonymous with competition policy, merely sets general 'framework conditions' for competition, 'vertical', i.e. interventionist or selective industrial policy goes further, in that it is based on targeted strategies which support specific activities, sectors or technologies while discriminating others. On the other hand, we can further systematise selective industrial policy based on the rationale behind it. We can distinguish strategic industrial policy, which aims at promoting specific industries to catch up or advance comparative advantages in world market competition, from reactive or defensive industrial policy, which aspires an orderly adjustment and restructuring in the light of de-industrialisation and the new international division of labour (Rehfeld/Dankbaar 2015: 493, Fröbel et al. 1981).

In reality, however, the distinction between horizontal or neutral policies and selective or interventionist policies is far less clear cut than on paper (Stiglitz et al. 2013: 8, Lin/Monga 2013: 21, Chang/Grabel 2004: 77). Many components of industrial policy often perceived as 'horizontal', i.e. not selectively promoting or discriminating individual sectors – such as infrastructure, innovation or exchange rate policies – actually benefit specific sectors more than others (Siglitz et al. 2013: 8-9). This has led some authors to consider any intentional, targeted attempt to support particular sectors or economic activities, i.e. selective economic policy as such, as industrial policy (Rehfeld/Dankbaar 2015: 492, Warwick 2013: 14). In this very broad definition then, industrial policy does not necessarily refer to manufacturing or industry per se (Harrison/Rodríguez-Clare 2009, Rodrik 2008: 2, Lin/Monga 2013: 21). This broad understanding of industrial policy is particularly prevalent in the Global North, as opposed to the Global South, where the term is generally more closely tied to the manufacturing sector as such (e.g. UNIDO 2011). Along the lines of this broad understanding, Stiglitz, Lin and Monga (2013: 11), for instance, extend the notion beyond manufacturing to include, in particular, R&D policies that aim at knowledge transfers. However, such a broad understanding ultimately allows grouping virtually any economic policy initiative under 'industrial policy'. It is no coincidence, therefore, that industrial policy has turned into an 'empty signifier' in the recent debate: a term charged with so many different meanings by different political forces that this overload of meanings makes it ultimately devoid of any specific or binding meaning and thus political implication. This renders it even more necessary to identify the contours of progressive industrial policy in the current debate.

3. (Progressive) Industrial policy and the Left

From the 1980s onwards, debates among the Left, particularly in Europe, barely discussed industrial policy as a tool to promote sustainable development, but for reasons partly not included in the mainstream debate. One reason was the broadly shared view that the industrialised societies were evolving towards post-industrial societies, which mainly relied on the provision of services rather than on large-scale manufacturing. Furthermore, many activists praised this development from the ecological point of view, because so-called 'brown', i.e. environmentally harmful, industries should be phased out anyway. So, the question arises: why should we promote industrial development through political intervention?

On the one hand, a country becomes more resilient to crisis with a sound industrial basis. It is easier to preserve jobs and to reduce structural dependency on other economies (Becker/Jäger 2010; Rehfeld/Dankbaar 2015: 496). Furthermore, jobs in the industrial sectors are usually better paid and more stable than in the area of services (Rehfeld/Dankbaar 2015: 497). On the other hand, the potential of industrial policy as a transition policy towards sustainability has increasingly gained strength, for example, in the German 'Energiewende' strategy promoting renewable energies (Pianta et al. 2016: 46). In our view, this last point is one of the most crucial ones for any progressive industrial policy. A well-intended mainstream industrial policy tries to develop new competitive industries (or to render the existing ones more competitive) and/or it seeks to support industries under pressure so that their decline takes place in a socially and politically responsible way. However, considering the ecological crisis, such proposals do not go far enough. Arguably, a truly progressive industrial policy would need to work at least partially against the 'rationality of the markets' by promoting social goals which transcend narrow conceptions of economic efficiency and international competitiveness

A further reason for promoting industrial policy through political intervention stems from the more recent catch-up development experiences. It is generally acknowledged that the East Asian economies (South Korea and Taiwan in particular) heavily relied on industrial industrial policy (Wade 1990). However, in his book *Kicking Away the Ladder* (2002), Ha-Joon Chang demonstrated that this was not due to industrial policy as such. Rather, any successful promotion of industrial development to some extent resorted to targeted state intervention. Therefore, it may not be accidental that one of the most important policy proposals of the Labour Party under Corbyn consists of a truly vertical industrial policy – once the UK will no longer be bound to the EU competition regulations on state aids (The Labour Party 2017).

Due to these factors, the resurgence of the debate on industrial policy has also increasingly resonated within the European Left. A vivid discussion has evolved around the question of what characterises an 'alternative' or 'progressive' industrial policy in contrast to mainstream approaches (for a summary of the debate see Eder/Schneider in this issue). One potential answer could be that progressive industrial policy does not limit oneself to 'picking winners' and to supporting companies until they can take off (and then privatise profits). Furthermore, it should not only promote structural change for the sake of growth and to reduce trade deficits, but also to foster a socially and environmentally sustainable industrial base. Nonetheless, this special issue does not aim at promoting or defending a pre-defined concept, but rather seeks to enrich the ongoing debate on progressive industrial policy. For this purpose, we present a variety of approaches on the topic, which do not provide an unanimous answer to the identified challenges.

The first two articles of this special issue discuss experiences with industrial policy implementation in the Global South. Jan Grumiller presents a comparison of the industrial policy strategies of Ghana and Côte d'Ivoire in the cocoa processing sector. He points to similarities and differences between the two case studies and reflects on to what extent their experiences have been progressive, but also which constraints have limited their room for manoeuvre. Juliana Gomes Campos undertakes an evaluation of the Brazilian industrial policy under the Partido dos Trabalhadores governments. She discusses the efforts of Lula da Silva's (2003 – 2011) and Dilma Rousseff's (2011 – 2016) governments in this field, but also tries to provide an explanation for the meagre outcomes. Together with the other articles of this special issue, they raise several important questions and issues concerning the design and implementation of progressive industrial policy.

The rest of the special issue consists of three articles, which discuss the current stage of uneven development in the European Union and – related to this – potentials of and challenges for progressive industrial policy from different angles. Focusing on the economic structure, Rudy Weissenbacher argues that industrial development might constitute a proxy for development in a broad sense, as the possibilities for catch-up development of peripheral countries in the European Union are rather limited in contemporary capitalism. Julia Eder and Etienne Schneider, as well as Anita Pelle and Sarolta Somosi, focus on prospects for the implementation of progressive industrial policy in the European Union. Eder and Schneider are – based on an evaluation of current power relations – not too optimistic about the establishment of progressive industrial policy on the EU level. Pelle and Somosi, on the other hand, see greater potential for EU-level policy strategies, but assert that the EU institutions should abandon the 'one size fits all' approach in order to benefit the European peripheries.

Considering that the economic crisis has not (yet?) been overcome, we believe that it is crucial to further in the Left the much-needed debate on progressive industrial policy. The articles of this special issue strive to contribute to this aim.

Acknowledgement

Editing of this introduction was financially supported by the Faculty of Social Sciences at the University of Vienna.

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