# Industrial policy is back

## The state needs to make strategic investments to increase demand for socially and ecologically beneficial goods

*Read this article in German.*

The times, they are changing. If 15 years ago, someone who'd even so much as use the words 'industrial policy' could easily look like an economic dinosaur who had outlived their era. In fact, in the early 2000s, the entire industrial sector came to be considered little more than a relic of a bygone era no longer fit for the twenty-first century service-based 'dot com' digital economy.

This short-lived neglect of primary and secondary industry was fundamentally shaken by the 2008 financial crisis, plunging as it did a key area of the tertiary sector into an epochal crisis. It also led to the current credo that it's the economies with the largest industrial sectors who are the most future-proof and financially stable – an idea that has become more imperative by the rise in global trade tensions between the US and China.

In Germany, Minister for Economic Affairs Peter Altmaier now interprets this conflict as a call to help keep heavy industry in the country. Altmaier recently raised eyebrows with his idea of helping selected 'national champions' to increase their global competitiveness as the core of his industrial strategy.

Faced with state-sponsored competitors from the US and China, this approach may seem understandable at first glance. But it actually misses the point entirely. In all truth, we simply don't know which particular sector of industry will create wealth and jobs in the future. Therefore, there's a real danger that the strategy Altmaier proposes will lead to resources being pumped into the wrong areas and wasted entirely. Moreover, if competition is distorted this way, end consumers will foot the bill when they are forced to pay excessive prices.

Therefore, we can see why this approach encounters quite some resistance. Having said that, simply doing nothing and letting the market

decide, as many ordoliberal politicians propose, is not an option either. In the worst case, too little or indeed nothing will be done as private investors, faced with the heaving sea of technological change, lack the basic level of security they need to make investments. Moreover, the dominance of the US and China in international trade policy becomes increasingly difficult to ignore. Doing nothing would lead to a loss of global heft and a potential technology gap – with all of the negative consequences this would have for growth and jobs.

## A sensible industrial policy

So what would be a sensible industrial policy that takes account of future uncertainty look like? Obviously, it needs to be based on a long-term economic strategy about how a country intends to earn its living in the future – rather than on an understandable, but damaging tendency to try and preserve the status quo in the industries might be important in today's economy. So yes, this is about an 'industrial strategy'.

The goal of a good industrial policy should be to help establish industrial-scale production facilities in areas seen as strategically important. In times past, this meant promoting efficient mass-production in regional clusters and with division of labour.

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In today's economic era of digital transformation and globalisation, regional concentrations are no longer necessarily essential, and the meaning of the term 'mass production' has shifted from 'lots of the same' to 'lots of lots of different products', conforming to individual consumers' wishes ('mass-customising'). This can only be achieved with digital processes and big data applications. When all is said and done, however, the political goal is the same: supporting production in order to provide employment.

To implement an industrial policy, there are two available tools. The first approach starts with the supply side and helps make high productivity possible. The second creates public-sector demand for large-scale production runs that make high productivity actually happen. It's only by using both of these approaches, however, that a combination of an affordable supply and high state demand can produce genuine success. If the supply-side isn't able to produce at acceptable prices, no amount of state demand will create a competitive industrial sector. Or, a lack of substantial public demand means that potentially competitive industries

have trouble bringing production to the scale at which it's competitive on a global level. So industrial strategy must be two-pronged, with measures on both the supply and demand-side.

In this context, there are clear recommendations on the supply-side at least for how Germany, for instance, should shape its industrial policy. Above all, the country absolutely needs to create a robust, comprehensive nationwide digital infrastructure. Genuinely comprehensive coverage is important for two reasons: firstly, it will contribute to the necessary geographical unbundling of production processes that currently leads to internal migration for jobs; secondly, it will free up companies geographically when building up value chains and it reduces uncertainty about choosing a location. This would increase competitiveness – and mean that supply-side industrial policy becomes primarily a matter of investing in infrastructure.

## The demand side

It's less clear how a concept for a demand-side industrial strategy might look like, as this would entail important economic policy decisions. A strategically sensible approach would be to try and return the German economy to its previous role as a pioneer in sustainable and social business: i.e. manufacturing products using the most resource-efficient, low-emission techniques possible in a socially responsible way, while offering employees a fair share of the profits.

There is no shortage of suggestions about how this could be achieved, starting with subsidies for green energy (that already well underway) and forms of propulsion compatible with renewables. Then there are resource-economical, low-emission methods of production that can also be subsidised, as can low-emission consumption, too. These ways of delivering demand-side stimulus needn't run counter to across-the-board subsidies for whole sectors or subsidies up the value chain – as long as they all pay into the same account and don't reduce competition.

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Evidently, this kind of activity must be accompanied by regulation to avoid the economical transition being paid for by worse employment conditions. This would, quite rightly, lead to resistance that might limit or even prevent ecological progress. So why not set a societal goal of making transportation ecologically and socially impact-neutral by a given year? The same could be done for other sectors, too, such as housing.

## Better in Europe

In this context, it's key for industrial policy to stimulate high levels of public or publicly induced private-sector demand to industrialise ecologically-friendly production processes. This would be about establishing the mass-production of ecological and social goods. Considering that production in these sectors is still at the beginning, this would certainly be an ambitious goal. Industrial policy carried out as demand-side supply means, more than anything else, industrialisation.

If connected to direct subsidies, industrial policy measures should be time-limited from day one to prevent beneficiaries from becoming dependent on subsidies in the long term. It would be important to communicate that, sooner or later, they will have to compete on the global marketplace on their own. A managed decline in subsidies from their initial level would help to underscore this message.

This approach to industrial policy would be doomed to fail if subsidies were not limited to companies or new ventures in Germany. The way the solar panel industry has developed clearly shows that even this geographical limitation doesn't guarantee that production will not eventually decamp, it does offer an opportunity.

It would be even better to launch this kind of programme on a European level to leverage the far greater demand in the single market as a whole. Subsidising the production of public goods on this scale, however, would necessitate a sufficiently large European budget – and there seems little hope of one in the near-term. Increasing the scope would, however, multiply the effect. Indeed, in an ideal world, this kind of initiative would be carried out on a global scale. Yet considering the recent rise in nationalist economic policy, this ideal world is, for the present moment, very much beyond our reach.

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