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Hard truths about green industrial policy

Governments are adopting industrial policies to speed up the green transition. But their underlying win-win narrative obscures the associated risks

From the European Union's Green Deal Industrial Plan and the United States' Inflation Reduction Act (IRA) to Japan's Green Growth Strategy and the Korean New Deal, industrial policies aimed at accelerating the energy transition are proliferating in wealthy, technologically advanced economies. Many developing economies are also designing and deploying state-led projects to foster green industrialisation, as competition intensifies for electric vehicles (EVs), so-called transition minerals and clean energy.

For example, several African countries, including South Africa, Kenya, Mauritania, Egypt, Djibouti, Tunisia, Morocco and Namibia, have enacted state-led initiatives to support the development of green hydrogen. Others, including Indonesia, Bolivia and Chile, are implementing national strategies to stimulate industrialisation based on the extraction and processing of nickel, cobalt, copper, lithium and other transition minerals and metals. These policies use a broad range of instruments – including subsidies, regulations, incentives and diverse state-business arrangements – and differ widely in terms of the public and private resources at their disposal. But they all seek to tackle three crises simultaneously: economic stagnation, polarised and precarious employment and intensifying climate change.

Not a silver bullet

The revival of industrial policy is based on the logic that addressing all three crises will create a virtuous cycle: targeted investment in green manufacturing and energy will boost economic activity, create well-paying jobs and usher in a low-carbon economy. The Biden administration's 'modern American industrial strategy', comprising the Bipartisan Infrastructure Law, the CHIPS and Science Act and the IRA, exemplifies this approach. What has been called the 'Biden three-fer' is

designed to boost US competitiveness in key industries *vis-à-vis* China, provide better economic opportunities for American workers and accelerate decarbonisation.

But the win-win narrative undergirding these new industrial strategies tends to obfuscate the risk that solving one problem may exacerbate another. In fact, the tensions between these policy objectives are already visible.

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For example, the decarbonisation of the economy may not create as many decent jobs as initially expected. In the US, both car companies and the United Auto Workers union have warned that the shift to manufacturing EVs, which require fewer parts, could lead to job losses. Some of these jobs will be redistributed to battery production, but this may be cold comfort for American and European auto workers, given China's dominance over the global battery supply chain.

At the same time, the growth of green industries can result in other environmental harms. Despite aiming to generate employment and value through the production of transition minerals, the industrialisation strategies of several Global South countries tend to entrench extractive practices. For example, Argentina, Bolivia and Chile – South America's 'lithium triangle' – are seeking to capture various stages of the lithium supply chain, from mineral extraction to processing to battery assembly. But the growth of this industry threatens to deplete water supplies, degrade soil and disrupt habitats, often in zones inhabited by indigenous Andean peoples. Similarly, the production of semiconductors, which are at the heart of clean tech, is energy-, water- and land-intensive and releases perfluorocarbons and other potent greenhouse gases into the atmosphere.

As these examples show, industrial policy is not a silver bullet for the intersecting crises of our times. The policy objectives of environmental sustainability, industrial dynamism and full employment are difficult to reconcile and require hard political choices about resource allocation, strategic priorities and, crucially, the distribution of economic and social costs. Moreover, the trade-offs will grow more complex and challenging as global warming worsens and growth continues to sputter. What we call the 'wicked trinity' of contemporary governance – climate catastrophe, economic stagnation and surplus humanity – will not go away anytime soon. In fact, it will likely shape the trajectories of public policymaking

long into the future.

It is essential to secure and maintain popular legitimacy for green industrial policies, as well as to facilitate collective and efficient decision-making and minimise mismanagement.

This is not to say that policymakers should give up on designing ambitious strategies to address these crises. On the contrary, swift and effective action is an absolute necessity. Yet, packaging these plans in win-win narratives that paper over the difficult trade-offs they involve significantly raises the risk that governments will lose popular support. The complex and conflicting nature of these policy objectives means that even the best-designed strategies will fall short, at least in some respects. This is unavoidable and an important component of learning-by-doing.

To avoid being seen as breaking promises, policymakers must embrace, rather than dismiss, the tensions and trade-offs at the heart of green industrial policies and subject them to public deliberation. This is essential to securing broad support for state-led decarbonisation projects. Such an approach would help build robust, transparent governance structures rooted in the principles of democratic deliberation and public oversight and control.

As matters stand now, many industrial strategies are the product of top-down, technocratic policymaking processes, despite all the talk of 'leaving no community behind' and a 'just green transition'. Subjecting the economy to democratic decision-making in this way would, admittedly, constitute a radical challenge to the current system of private ownership and market coordination. But it is essential to secure and maintain popular legitimacy for green industrial policies, as well as to facilitate collective and efficient decision-making and minimise mismanagement. Otherwise, we risk a public backlash that impedes the collective action needed to safeguard our future on this planet.

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