

Competitiveness and Industrial Policy

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- **Competitiveness**
 - Predispositions
 - Analytic layers
- **Industrial Policy**
 - A puzzle of many parts
 - Multiple ‘faces’ of IP
 - When (not) to intervene?
 - Industrial development
- **Fitting the pieces**

A priori, discussed at other occasions

- Competitiveness is a **natural concern** not only for individual *firms* but also at *meso*- and *macro* levels
- **Cost based factors** mostly reflect critical balancing constraints
- **Quality based factors** tackle the structural drivers of competitiveness
- **Various analytic layers**; awareness of which can reduce coordination cost and raise quality of policy

A pyramid diagram with five horizontal layers. Each layer is a rounded rectangle containing text. The layers are stacked vertically, with the top layer being the smallest and the bottom layer being the largest. The pyramid is light gray and is positioned on the left side of the slide.

Productivity

GDP p.c., GDP p.h., MFP

Balancing constraints

ULC & REER, current account, monetary & fiscal balance; eco & social sustainability

Resources

Knowledge (education & innovation); capital, labour, intermediary goods

Structural factors

Regulation & competition, firm demography, trade openness & specialisation, value chains, etc.

Deep level factors

Cultural values, norms & institutions

A puzzle of many parts ...

- Innovation policy
- Education policy
- SME policy
- Trade policy
- Competition policy
- State Aid regulation
- Sector regulations
- Infrastructure policy, etc. etc.

➤ **Do we need another “Industrial Policy”, and what would be distinctive about it?**

Competitiveness

Target **productivity** growth (within and between sectors)

Target **societal objectives** (e.g., ecology, health)

→ **finetune policies** to needs of sector; seek **dialogue** with stakeholders

Structural Change

Target **factors** (technology, education, capital, labour, energy, etc.)

→ **differential impact on industries**

Target **activities** with high added value → **quality upgrade** (within & between industries)

Manufacturing
(Tradeable) Services
Agriculture

Functional

← **Targets of IP** →

Sectoral

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- **Market failure, system failure, government failure,**
... isn't this an odd way to warrant policy?
 - Strong belief in 'optimal' outcomes as benchmark
 - Rather constraints to policy choices and design

 - Towards a **dynamic logic of intervention**
 - Reason policy by what we **aim to achieve**
 - Assess **strengths** and **weaknesses** of markets vs government as distinct means of economic co-ordination
 - Long for a coherent vision and **integrated perspective**

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- **Dynamic industrial policies** are public interventions to enhance **industrial development**, i.e. productivity growth and structural change,
 - be it at the level of individual **enterprises, industries** or the aggregate **economy**
 - in a **sustainable** manner, and
 - subject to the overall **goals of society**.
 - Synonymous with “**Competitiveness Policies**”
 - $CP = DIP = EP + SP + FP$
 - DIP ... dynamic industrial policy; EP ... enterprise policies ; SP... sectoral policies (= industrial policy, narrow def.); FP ... framework policies.

■ Strengths

- **Allocative efficiency**: selection directed by demand, directly coupled to user's preferences, utility & consumer welfare
- **Productive efficiency**: strong selection forces discipline on agents; incompetence or corruption tend to be punished rapidly
- **Co-ordination** of decentralised knowledge (supply and demand)
- **Fast learning** about own comparative (dis-)advantage

■ Weaknesses

- **Market failure** (public goods, external effects, asymmetric information, collusion & monopoly, transaction costs)
- Self-organisation is **myopic** (→ lock-in to local equilibria), and
- on itself **blind** to other societal goals (e.g. income distribution, health, ecology etc.).

- **Strengths**

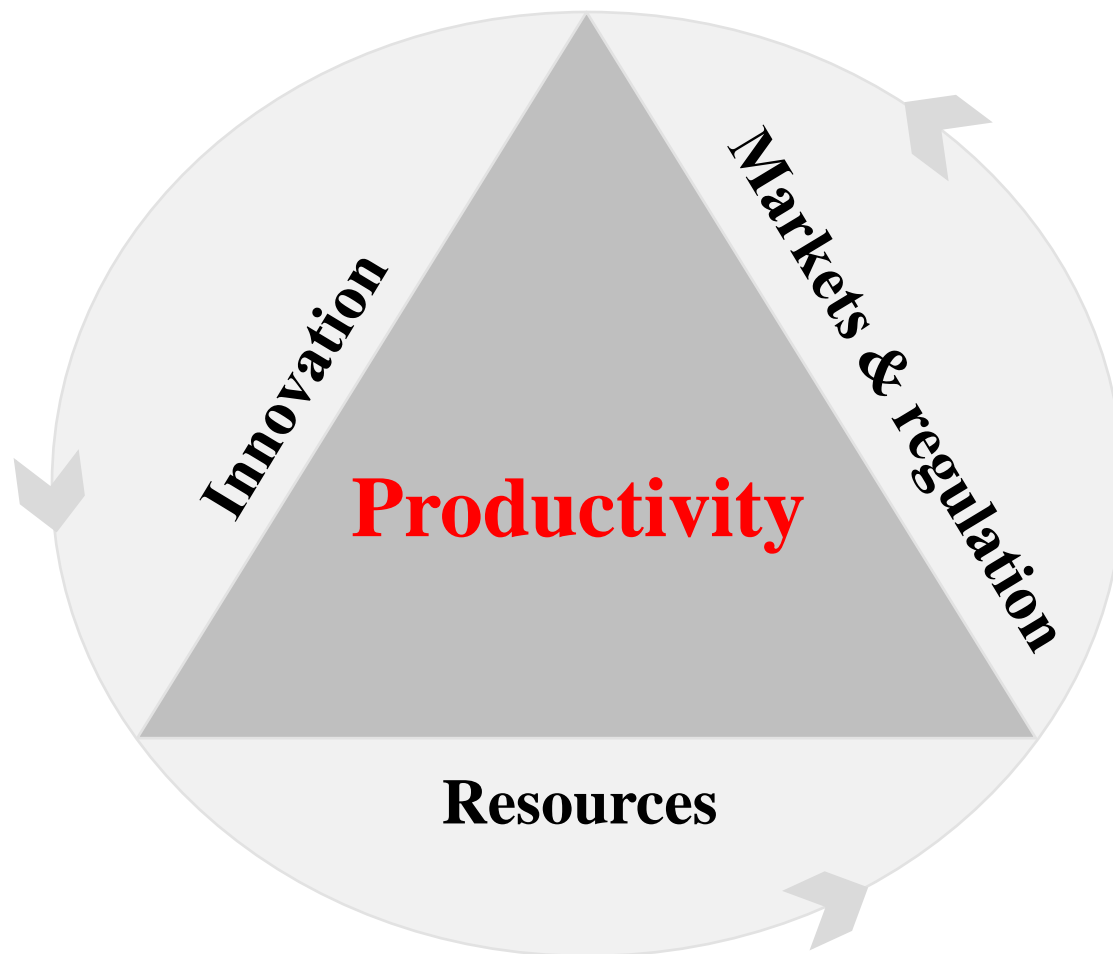
- Mobilise **resources** (e.g., infant industry; market failures)
- Potential for **purposeful**, planned and directed activities
- Can set/adjust priorities according to overall **goals of society**

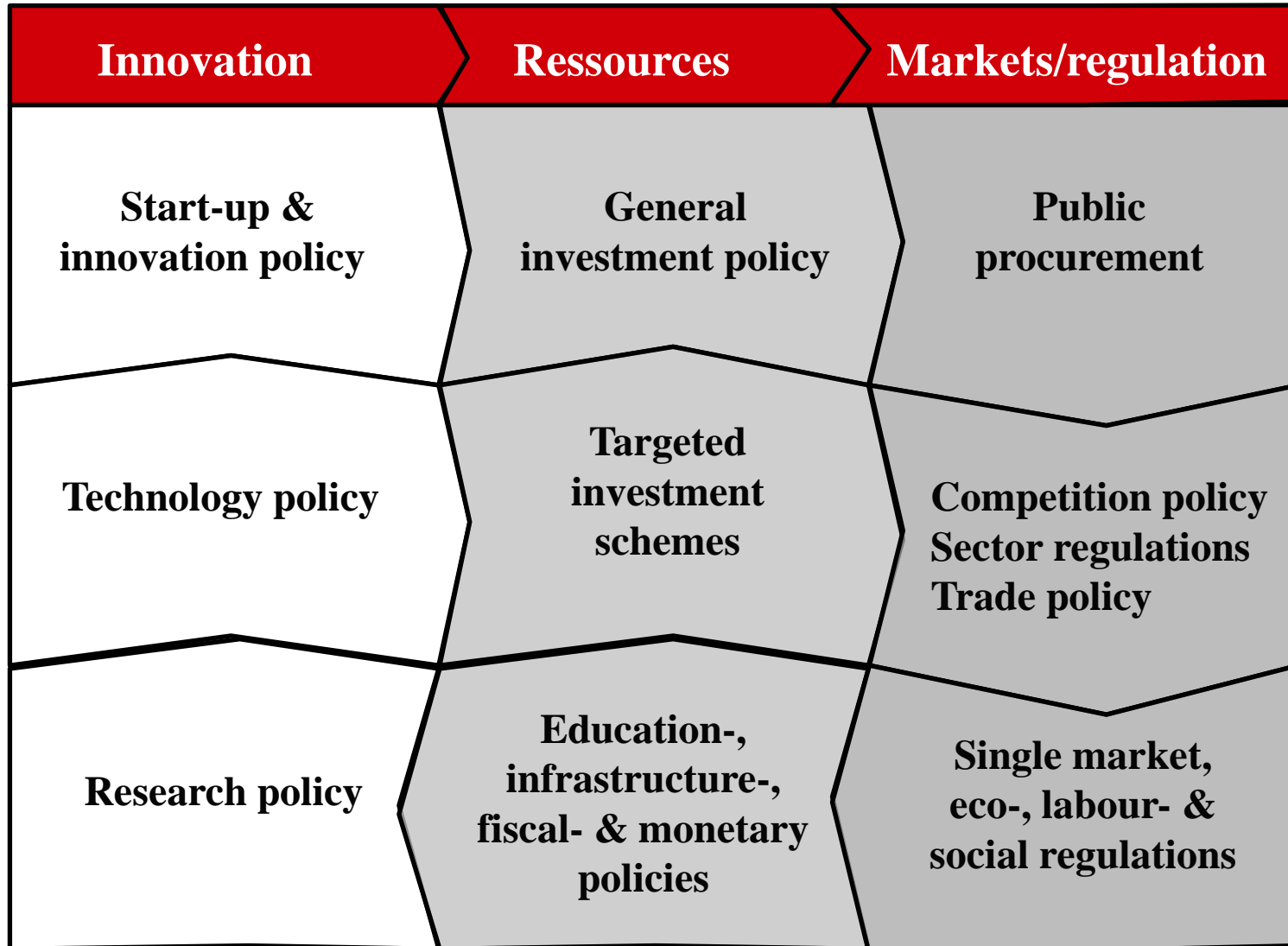
- **Weaknesses**

- **Agency** problem (principal's power is diffuse)
- **Capture** by interest groups → rent-seeking behaviour
- **Leviathan** → growing administrative burden and control
- **Crowding-out** of private initiative
- **Weak selection** → allocative & productive inefficiencies

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- **Degree of intervention** should depend on
 - the economy's capacity for **self-organisation** → developed economies *need* less IP,
 - but also on the **quality of public institutions** → less mature societies might *want* less IP
 - Apply principle of **opportunity cost**
 - If private markets can do it, don't waste public resources
 - Not every positive effect is good enough!
 - Conduct systematic **evaluation** by independent agencies
 - Go for even stronger **international co-ordination** to avoid escalation of subsidy or trade wars (prisoner's dilemma).

Examples	Variation ► (Stochastics); Structural change	Cumulation ► Time (i.e. dynamics)	Selection ► Direction
White noise	(+)	-	-
Blind growth	-	+	-
Random walk/drift	+	+	-
Static equilibrium	(+)	-	+
Steady state growth	(+)	+	+
Development (evol. Change)	+	+	+





- Above all, more **consistency** of theory and practice
 - Better progress with articulate, i.e. contestable concepts
- Acknowledge diverse **analytic layers**
 - Affects measurement, priorities and design of policy
- **Dynamic rationale** of industrial policy as “competitiveness policies to enhance industrial development”
- **Integrated policy perspective**
 - Combines enterprise-, industry- and framework-policies
 - Denominates specific tasks within the overall agenda → helps to avoid institutional overlap and ease policy co-ordination!

Thank you for your attention !

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- The European Competitiveness Reports:
old and new topics

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- **Key Enabling Technologies** (2010, 2013)
 - Energy content of exports & eco-innovation (2012)
 - Convergence of knowledge intensive sectors (2011)
 - Foreign corporate R&D and innovation (2010)
 - Financing of innovation (2006)
 - Lead Markets (2006)
 - Productivity and public sector R&D (2004)
 - Impact of innovation (2001)
 - Biotechnology (2001)
 - Quality based competitiveness (2000)
 - “B2B E-Commerce“ (2000)
 - Technology and innovation (1998)

**Labour, skills
& knowledge**

- **Reducing productivity and efficiency gaps: the role of knowledge assets, absorptive capacities and institutions (2013)**
- Migration, skills and productivity (2009)
- Training, education and productivity (2009)
- Skill problems (2007)
- Human capital and productivity growth (2002)
- Skill shortages in ICT (2001)
- Intangible investments (1999)

Finance

- Financing of innovation (2006)
- Access to finance for SMEs (1999)

ICT

- ICT, regulation and productivity (2009)
- ICT sector (2006)
- ICT, firm reorganisation and productivity (2003)
- ICT, growth and productivity (2001)

Energy & raw materials

- *Energy efficiency (2014)*
- Energy content of exports & eco-innovation (2012)
- Industrial non-energy raw materials (2011)

Regulation

- Microeconomic reforms (2007)
- The regulatory environment in the context of the Strategy for Growth and Jobs (2006)
- Productivity and the public sector (2004)
- Synergies between EU enterprise and competition policies (2002)

International competition

- The external sector in the recession (2012)
- Global value chains (2012)
- Foreign Direct Investments (2012)
- Neighbourhood policies (2012)
- Trade in intermediate products and manufacturing supply chains (2010)
- EU and BRICs (2009)
- Trade costs, openness and productivity: market access (2008)
- Challenge of a rising Chinese economy (2004)
- EU enlargement and manufacturing (2003)
- Internationalisation of EU services (2000)

SMEs

- Clusters & networks (2012)
- Entrepreneurship and SMEs (2008)
- Access to finance for SMEs (1999)

Societal goals

- EU industry and sustainable growth (2011)
- Competitiveness aspects of the Sustainable Industrial Policy (2008)
- Corporate Social Responsibility (2008)
- Sustainable development in EU manufacturing (2002)

Sector studies

- Fashion industries (2012)
- Space Sector (2011)
- Creative Industries (2010)
- Liberalisation of Energy markets (2006)
- ICT sector (2006)
- Pharmaceutical industry (2006)
- Health sector (2004)
- Automotive sector (2004)
- Productivity growth in EU services (2002)

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- Structural change**
- **Structural change** (2013, 2000, 1999)
 - **The manufacturing imperative** (2013)
 - Future of manufacturing (2007)
 - Sectoral growth drivers (2008, 2007)
 - External services (2000)
 - Firm location (1999)
 - Sectoral development (1998)

- **Competitive performance of EU manufacturing** (2013)
- Crisis and recovery (2011)
- Growing imbalances of EU industry (2010)
- Competitiveness and the crisis (2009)
- General developments (2008, 2007)
- Growth and standards of living (2006, 2001)
- Growth, productivity and employment (2003)
- Regional aspects of competitiveness (2003)
- Sensitivity to external shocks (1999)