Competitiveness and Industrial Policy

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Outline

- 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
Competitiveness Pyramid

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
Industrial Policy

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?
The multiple ‘faces’ of IP

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)

Narrow ← **Definition of IP** → Comprehensive

Functional ← **Targets of IP** → Sectoral

Manufacturing
(Tradeable) Services
Agriculture
Competing rationales

- **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**
Objective and definition

- **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.
**Markets**

- **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.).
Governments

- **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
When (not) to intervene?

- **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).
### System characteristics

<table>
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<th>Examples</th>
<th>Variation</th>
<th>Cumulation</th>
<th>Selection</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>➤ (Stochastics);</td>
<td>➤ Time (i.e. dynamics)</td>
<td>➤ Direction</td>
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<td></td>
<td>Structural change</td>
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<tr>
<td>White noise</td>
<td>(+)</td>
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<td>Blind growth</td>
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<tr>
<td>Random walk/drift</td>
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<td>-</td>
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<tr>
<td>Static equilibrium</td>
<td>(+)</td>
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<tr>
<td>Steady state growth</td>
<td>(+)</td>
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<tr>
<td>Development (evol. Change)</td>
<td>+</td>
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Drivers of industrial development

- Innovation
- Markets & regulation
- Resources

Productivity
Fitting the pieces

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Ressources</th>
<th>Markets/Regulation</th>
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</thead>
<tbody>
<tr>
<td>Start-up &amp; innovation policy</td>
<td>General investment policy</td>
<td>Public procurement</td>
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<td>Technology policy</td>
<td>Targeted investment schemes</td>
<td>Competition policy Sector regulations Trade policy</td>
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<tr>
<td>Research policy</td>
<td>Education-, infrastructure-, fiscal- &amp; monetary policies</td>
<td>Single market, eco-, labour- &amp; social regulations</td>
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Enterprise policies

Sectoral policies

Framework policies
What we have achieved, and if not, should aim for

- 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 !
The European Competitiveness Reports:
old and new topics
– **Key Enabling Technologies** (2010, 2013)
– Convergence of knowledge intensive sectors (2011)
– Foreign corporate R&D and innovation (2010)
– Financing of innovation (2006)

– Impact of innovation (2001)
– Biotechnology (2001)
– Quality based competitiveness (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)
Resources (ctd.)

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

Regulation

- Microeconomic reforms (2007)
- 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)
- 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)
Other (ctd.)

Sector studies
- Fashion industries (2012)
- Space Sector (2011)
- Creative Industries (2010)
- ICT sector (2006)
- Pharmaceutical industry (2006)
- Productivity growth in EU services (2002)
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)
General performance

- 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)