



The EU’s New Industrial Policy: Panacea against the Rampant Job Crisis?

A panel debate jointly organised by Bertelsmann Stiftung, Confrontations Europe, and Madariaga – College of Europe Foundation

Conference Reader

The BTTD 2013 panel on the issue of “The EU’s New Industrial Policy: Panacea against a Rampant Job Crisis” focuses on the labour market potential of the Commission’s current strategy for a European industrial policy by elaborating on three main questions: What are the net employment effects of the “Third Industrial Revolution” the Commission strives for? What kind of labour markets and training policies does the EU need to address skill mismatches? And finally, to what extent are the employment benefits and costs of an integrated industrial policy equally distributed amongst member states and regions, and what does this imply for mobility and migration within the EU?

Each of the three thinks tanks in charge of organising the panel have prepared a policy brief covering different aspects of the debate. The Bertelsmann Stiftung’s contribution analyses the job potential expected from innovation in the Commission’s new approach towards an integrated industrial policy. The paper by Confrontations Europe pleads for a European Industrial Policy based on integration and cooperation. And, last but not least, the contribution by the Madariaga – College of Europe Foundation identifies the existing inconsistencies between the EU and the EMU framework and the elements missing for a broad European Industrial Policy.

The EU's New Industrial Policy: Innovation as a Motor for Job Creation?

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On 10 October 2012, the Commission adopted a mid-term review, entitled “A Stronger European Industry for Growth and Economic Recovery”¹, of the industrial policy flagship initiative² under the EU 2020 strategy. Besides upholding the strategic approach and long-term objectives proposed in 2010, namely sustainable growth and job creation, the Commission established four pillars of reinforced industrial policy: (1) investments in innovation; (2) better functioning of the internal market for goods as well as better access to international markets; (3) access to finance and capital markets; (4) human capital.

This paper seeks to take a closer look at the first pillar and put the Commission's ideas for innovation in a broader context so as to assess its potential as a motor for job creation.

1) Innovation types and labour market effects

Economic theory is unanimous in concluding that innovation is a key contributor to long-term well-being. Consequentially, innovation has an important standing in the Commission's communication. However, does more innovation necessarily mean more jobs?

First of all, we need to distinguish between different types of innovation. Innovation can refer to both new products as well as new ways of producing already established goods. The former is called product innovation whereas the latter is called process innovation.

On an individual level, product innovation should provide an innovative company with a ‘first-mover’ advantage, thereby increasing its sales and, consequently, its demand for labour. However, there are two effects working detrimentally to this positive outcome. First, the company can decide to raise prices for the innovative product as long as they have a quasi-monopoly. Depending on price elasticity, this can lead to decreased sales and decreased demand for labour. Second, the innovative product may just substitute an existing product from that same company which will offset the positive labour market effect. With regard to process innovation, the picture does not look clear either. Typically, process innovation is geared towards creating the same or more output with less input, which illustrates the initial negative effect on corporate employment. However, increased competitiveness of the innovative company can, on the one hand, lead to an increased market share and increased labour demand. On the other hand, process innovation does not necessarily lead to lower prices and subsequent growth in labour demand, but can result in rent-seeking by either the employers or the employees.

On an aggregate level, the effect of product innovation on the labour market depends on whether the new product contributes to overall market growth or whether it just constitutes an example of ‘business stealing’ at the expense of non-innovators. In the latter case, the growing labour demand on the part of the innovative company will at least partially be offset by the decreasing success and labour demand of its competitors. Regarding process innovation, reducing one's unit labour cost is without a doubt aimed at increasing one's market share, i.e. ‘business stealing’.

¹ European Commission: “A Stronger European Industry for Growth and Economic Recovery”, COM(2012) 582/3 final.

² European Commission: “An integrated industrial policy for the globalisation era“, COM(2010) 614 final.

The impact of innovation on the labour market becomes even less predictable if the regional dimension is included. In times of globalisation and global supply chains, innovation that happens in one place might create a job in the same place or in another. In addition, the impetus to growth by innovation differs with regard to the relative development of the region, according to a study by the OECD.³ For less developed regions (as compared to the national average), the quality of human capital and the quality of government seem to be more important for growth than innovation.

As a result, a general positive effect of innovation on labour markets and job growth is far from clear and cannot be taken for granted. Theoretically speaking, innovation both creates and destroys jobs.

2) Innovation in the Commission's communication

In its communication, the Commission focuses on six priority areas for investment in innovation. They are (1) markets for advanced manufacturing technologies for clean production; (2) markets for key enabling technologies; (3) bio-based product markets; (4) sustainable industrial policy, construction and raw materials; (5) clean vehicles and vessels; and (6) smart grids. According to the Commission, “[i]nvestment in new technologies in these areas will help deliver the Europe 2020 goal of a sustainable and high-employment economy.”⁴ By 2020, the EU aims at ensuring 75% employment of 20-64 year-olds.

Some of the priority areas fit into one innovation category, others seem to be able to deliver both product as well as process innovation. For example, advanced manufacturing technologies such as 3-D printing clearly belong to the category of process innovation. 3-D printing allows production in much smaller quantities and substitutes products which had formerly been created manually with technology-based production, thereby reducing the demand for labour. Conversely, as 3-D printing technology extends to households, this could create labour demand in the companies that produce such devices. As argued before, it remains unclear what effect innovation really has on the job market. This example also shows that product and process innovation are often linked.

The development of clean vehicles and vessels is a priority that aims at product innovation. One specific goal of this priority is to drive forward the transition to a low-carbon economy by replacing vehicles and vessels that are based on ordinary combustion engines. It is therefore destined not to enhance the market but to replace other products either by the same company or by competitors. Either way, the prospects for job creation due to innovation in this field seem rather doubtful. However, positive secondary effects on labour demand based on increased demand for the new products are possible. The same applies to the development of bio-based products (priority no. 3) and the greening of residential and public buildings and infrastructure (under priority no. 4). Again, the aim is to substitute less environmentally-friendly products with greener goods, calling into question the true potential for job growth.

With regard to production processes, the Commission states that using bio-based processes (also under priority no. 3) improves competitiveness. Still, competitiveness gains based on producing less waste will initially be good for the environment, but not for workers who have previously dealt with disposing waste.

³ Farchy, Emily et al.: “A Regional (Place-based) Policy Approach for Innovation and Jobs”, paper presented at the i4j Summit, March 2013, p. 7.

⁴ European Commission: “A Stronger European Industry for Growth and Economic Recovery”, COM(2012) 582/3 final, p. 7.

Including the regional dimension raises a lot more questions, especially in times of an economic crisis that affects some regions more than others. Will competitiveness gains be realised at the expense of other European companies or at the expense of international competitors? If innovation destroys a job in Europe's periphery that is strongly affected by unemployment but creates a job in the centre, should it be pursued? If less advanced areas profit more from education than from innovation, should investments in innovation be concentrated on certain regional clusters? The last two questions are inherently political and cannot be answered easily.

Furthermore, what all of the six priority areas seem to have in common is that they involve high-tech products or processes that are based on mathematics, computer sciences, natural and engineering sciences and technology. Whether this is suitable to create the mass employment needed to achieve the 75% employment goal by 2020 is questionable. In addition, a recent study shows that the crisis particularly hit low- to medium-skilled workers in areas such as construction and manufacturing.⁵ If innovation should indeed spur profound change in these sectors, how can those people be reintegrated into the labour force?

3) Suggestions for accompanying policy measures

It should be clear by now that innovation, notwithstanding its important role for long-term growth, cannot be taken as a short-term panacea for European unemployment and problems in national labour markets. This observation also applies to the Commission's approach towards innovation in its recent industrial policy review. If innovation is to be a motor for job creation, it should be accompanied by certain policy measures both at the EU and at the nation state level.

Conduct monitoring of how innovation affects labour markets

As argued before, the effects of innovation on labour markets are far from predictable. Therefore, the Commission should closely monitor the effects of its policies in order to be able to react quickly to potential unintended consequences. The Commission's monitoring of industrial competitiveness in the member states also features a chapter on innovation. However, this is primarily oriented towards the general economic framework and not towards what this discussion requires.

Monitoring should, on the one hand, focus on the types of jobs that are prone to being destroyed by innovation. Typically, these are routine tasks in step-by-step procedures where human labour can be substituted by capital as long as artificial intelligence does not take a major leap forward.⁶ On the other hand, monitoring should centre on jobs that are created in order to assess which kinds of skills are required in the evolving economic setting.

What is more, the Commission should keep an eye on the regional diffusion of labour market effects. Innovation should not lead to a massive intra-European brain drain from the periphery to the centre. Fostering the "Knowledge Triangle" between research, education and innovation in peripheral regions and/or encouraging industrial cluster-building and specialisation in sectors that are not covered elsewhere may prove necessary to counter this risk. This is particularly applicable since enhancing cross-border-mobility of skilled workers ought to be one of the key responses of the EU to the unequal impact of innovation on regional labour markets (*see section below on labour mobility*).

⁵ Eurofound: "Employment polarisation and job quality in the crisis. European Jobs Monitor 2013".

⁶ Farchy, Emily et al.: "A Regional (Place-based) Policy Approach for Innovation and Jobs", paper presented at the i4j Summit, March 2013, p. 4.

Focus on labour market policies that aim at reintegration and prevention

The knowledge derived from monitoring should feed into national labour market policies. As innovation entails structural change in workplaces, workers run the risk of becoming obsolete. The risk is present for both product and process innovation but seems more prominent in the latter. Labour market policies should therefore aim at active reintegration of workers into employment. Under the Europe 2020 strategy, active labour market policies are already identified as an important contributing factor. They should, for example, include educational measures to reflect the transformed economy, such as training to be able to work with new technology.

In order to avoid the risk of being laid off, there should also be incentives to preventively invest in human capital. However, there exist barriers towards such investments both for companies as well as for the workers themselves which is why the EU and/or nation states need to intervene to prevent market failure. They could do so, for example, by creating regulations that enable workers to take an education vacation.⁷ Although the mid-term review includes a chapter on human capital, it remains fairly short in comparison to the rest.

Promote mobility among workers

One potential reaction to a possible regional redistribution of workplaces is to encourage mobility among workers. Thus, skill mismatch can be alleviated and employment retained. On the one hand, nation states should focus on increasing the mobility of workers within their borders. This could, for instance, come in terms of financial support for workers who take up employment someplace detached from their families. On the other hand, the EU should try to increase its efforts on cross-border mobility, perhaps by further broadening and simplifying cross-border recognition of qualifications. The Commission's proposal⁸ for modernising the Professional Qualifications Directive points in the right direction but could be more ambitious as regards automatic recognition which is, so far, restricted to seven professions.

Create incentives for women to work in fields driving innovation

While in 2012, 74,6% of men aged 20-64 were employed, boosting the share of employed women (62.4% of the same age group) could help the EU achieve its 2020 goal of 75% employment.⁹ Given that the EU sees innovation primarily in areas based on natural sciences in the wider sense, the EU and nation states should intensify their efforts to attract women to the respective academic subjects and further promote existing initiatives such as the "Science: it's a girl thing" campaign.

4) Conclusion

This paper has shown that the six priority areas for investment in innovation identified by the Commission in its 2012 Communication on European Industrial Policy are not a motor for job creation in themselves. They – as well as product and process innovation in general – can produce both positive and negative effects on the labour market. In particular, the combination of environmental goals and job creation appears to be contradictory as long as it aims at substituting established products by green

⁷ Thode, Eric: Re-integrating Losers of Innovation-Driven Structural Change – What can Labor Market Policy do?, paper presented at the i4j Summit, March 2013, p. 6f.

⁸ European Commission: "Proposal for a directive of the European Parliament and the Council amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation on administrative cooperation through the Internal Market Information System", COM(2011) 883 final.

⁹ Data taken from Eurostat, Europe 2020 Headline Indicators.

goods and not at expanding the market. To ensure timely responses, such as via labour market policies, a close monitoring of the employment impact of implementing the Commission's policy recommendations seems especially important.

A European Industrial Strategy Based on Integration and Cooperation

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With the economic crisis in the cradle, the European labour markets are in the shamble: there has been a continuous rise in the unemployment rate since 2008, reaching more than 10% in the EU-27 early this year, the youth unemployment situation is alarming to say the least, and the structural nature of unemployment is now clear. Europe is also experiencing a deplorable proliferation of situations of precarity and exclusion. The relationship to labour in Europe has become deeply negative. But while some are doing well – namely Germany, the Netherlands and Austria, where the unemployment rate does not exceed 6% – other European labour markets, especially those in Spain and Italy, are severely affected. The differences between European labour markets, which have never before been so large, are linked to macroeconomic and competitiveness gaps between Member States. With the high rates of unemployment, it has become clear that the increase in talent shortages is widespread and that skills mismatches is a structural problem in Europe, especially in the developed countries. Ultimately, these trends are holding back job creation.

Confrontations Europe believes that renewed growth, the source of employment and productivity, comes through a European industrial competitiveness strategy based on integration and cooperation¹. Industry is at the heart of research and innovation, productivity and employment. The impetus to systematically develop partnerships, and to significantly improve determination and action within the Eurozone and the EU-27, must come voluntarily from Member States. The European Commission is not inactive, and we welcome its initiative regarding a European industrial policy. Confrontations Europe supports its ambitious goals, especially that of increasing the industrial share from 12% to 20% of European GDP by 2020. However, the policy lacks systemic vision and long-term strategy and the financial constraints remain tight. Today, the lack of business investment in production capacity and in hiring new workers is linked to the lack of coherency in policies among governments².

This paper is divided into two sections: the first presents the main pillars of a European industrial strategy based on integration and cooperation, the second demonstrates that in order to reabsorb difficulties on European labour markets, there is a need to mobilise education, training and employment policies.

1) How to boost growth and job creation?

An industrial policy able to encourage growth and positive trends on labour markets must be based on four pillars.

Reforming market and innovation policies and promoting a European production system based on cooperation

Hope for employment cannot be revived if public policy and market mechanisms block project horizons and put a brake on business, sectoral and territorial investment dynamics. Although competition policy has lacked the ability to anticipate, this could be made up for by using its tools to

¹ Confrontations Europe (2012), “European industrial competitiveness strategy based on integration and solidarity”, Open Letter.

² International Labour Organization (2013), “Global Employment Trends 2013: Recovering from a second jobs dip”, report, January.

help restructure companies and sectors with the aim of making best use of innovation, of redeploying activities, and of structuring an integrated and horizontal field where necessary. Competition policy would therefore play a very important role in encouraging large companies to be part of an industrial cooperation strategy, as well as in the development of SMEs. In this regard, there is a need for the creation of a European patent fund and of structures for the promotion of public research, demonstrators, pilot units and platforms.

Competition policy, which is currently a hindrance to cooperation, must be reformed in order to ensure the development of industrial cooperation, thereby reducing costs by dividing them up. It gives priority to short-term consumer interests and neglects the producer surplus, which nevertheless determines innovation capacity and real added value.

Furthermore, market logic must be supplemented by public policies tailored specifically to individual sectors, and which are particularly careful to reconcile the development of old and new industrial sectors. To this end, the EU should identify areas of common interest and design associated sectoral policies – the automotive sector, health sector, and European space industry being some examples.

Finally, the EU needs to organise technological and industrial cooperation in all sectors and in all regions. This means building new industries and European players of international size, and creating ecosystems for innovation and investment. These actions call for sustainable partnerships, which competition policy should facilitate. Planning, programming and funding the renewal of major EU infrastructures must not perpetuate the trends of polarisation and industrialisation, but instead contribute to the integration of peripheral countries.

Digital economy and greening economy

Confrontations Europe believes that the rectification of the energy package and the digital agenda is needed to equip Europe with better policies in these areas. A European energy solidarity pact will make it possible to reconcile decarbonation and competitiveness objectives by forming an energy-mix for capacitance, in order to make good use of different national sources and promote complementarity. The European network needs to be optimised and developed to reduce supply costs and energy dependency. Particularly, if the greening is poorly managed, this may result in uncompensated job losses. Presently, green jobs are being created in China, not in Europe. Regarding the digital economy, infrastructure and services should be accelerated in such a way as to promote the public good and not just commercial transactions. Moreover, supply policy should act as a support for growth and job creation.

Promoting long-term investments

If competitiveness is the key to growth, then investment financing conditions should urgently be reconsidered. Savings still remain an abundant source of funding, but they are largely monopolised by public and social deficits. Europe has lost control of the value of its assets and debts. Financial regulation policies, while ensuring financial stability, must avoid the risk of penalising economic growth. The Commission must now regain control of accounting standards and adjust their prudential doctrine in order not to mix financial and economic risks together. In this sense, the EU must now foster a reform of the structures in Europe's financial industry under the framework of the Banking Union and elaborate a new model to transform resources into investments. These investments will generate positive externalities for growth and competitiveness.

Raising export capacity is crucial in terms of employment and growth in Europe, and a major challenge for the industrial sector in particular. But there are considerable obstacles to entering external markets.

That is why Europe needs to establish a principle of reciprocity, to extend trade policy and to link it to the development of a European base camp. The fundamental principle behind reciprocity is openness, not protectionism. But openness is not synonymous only with free trade; in the absence of adequate rules to create social cohesion and trust, legal uncertainty and corruption will continue to present themselves as hurdles. Therefore the EU not only should define its strategic interests, but also ensure that its standards are accompanied by an adequate taxation system, it must lower the cost of capital for long-term investment agreements and partnerships, and develop a zoning policy.

2) How can education and training policies and employment policies boost job creation?

Recent studies have shown obvious results: the expansion of the “*Great Mismatch*” and the shortage of talent, a side-effect of skills mismatches, limit the prospects for job creation³, competitiveness and productivity⁴. In France, the McKinsey report estimates that the country could experience a loss of 4.5 million jobs from here to 2020 due to shortages⁵. The restructuration that industrial strategy implies will only accelerate these trends. Confrontations Europe recommends the promotion of EU policies on vocational and lifelong learning and on mobility in an organised European labour market.

Promote vocational training and continuing training for the general development of qualifications, skills and trades

Although the treaties do not grant the EU any mandate in this area, it is trying to take appropriate measures to better reconcile training and employment. It is up to Europe to catalyse this education revolution. Several associations have been created within universities and between universities and companies (the Italian AlmaLaurea offers a prime example), as well as European networks for the exchange of best practices and quality labels. Universities can no longer afford to sit on the fence. They must rethink their role in preparing students for the market and make sure that they are equipping them with essential life skills. Cooperation between businesses and universities is crucial.

Create a European labour market to promote mobility and secure job-to-job transitions

All labour market insertions and job transitions must be secure and effectively managed. In order to reduce skills mismatches, national policies for cross-border mobility must be coordinated, cooperation agreements should be established and the necessary infrastructure for a trans-European market created. EURES, as a European public service, should be able to provide advice and information on training and career transition opportunities in line with the national, public and private employment services and facilitate the recognition of professional qualifications, through European labels, programmes and training initiatives.

³ ILO (2013), “Global Employment Trends 2013: Recovering from a second jobs dip”, report, January.

⁴ Cedefop (2010), “The skill matching challenge – analysing skill mismatch and policy implications”, report.

⁵ Labey E., Roxburgh C., Magnin C. and Mischke J. (2012), *French employment 2020: five priorities for action*, Report, McKinsey Global Institute.

Anticipate restructuring and draw up agreements to develop links between training, employment and production

Training reassessment must be incorporated into the employment relationship so that workers' skills are continuously adapted and upgraded. In addition, the training structures created by large businesses must not remain confined within the company, but made available to offer training in production chains and labour pools. At regional and national levels, links between training, employment and production must be supported by a European framework and partnerships, sharing responsibilities and funding. Sectoral social dialogue must be mobilised and encouraged through a partnership aimed at building cross-sectoral relationships and developing industry, to prepare for restructuring and transition.

Nevertheless, to initiate a sustainable recovery of the European economy, economic and social dialogue alongside the involvement of civil society must be re-launched.

Towards a Broad European Industrial Policy: What Is Missing?

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Recently back in the European vocabulary, the embryonic definitions of broad industrial policies risk falling victim to the growing inconsistencies between the EU and the EMU frameworks. The aim of this paper is to highlight these inconsistencies, arguing that an industrial policy for Europe should focus on those framework aspects that have most affected industrial developments over the last decade.

1) Defining the paradigm

Industrial policy was one of the founding rationales of the European project. However, to define what industrial policy means has never been an easy task. A proper description of industrial policy in the West in the post-war decades can be summarised by the definition given by the US International Trade Commission, stating that industrial policy is the “coordinated government action aimed at directing production resources to domestic producers in certain industries to help them become more competitive”. This can be defined as a sectoral approach, aimed at developing and protecting national champions and domestic manufacturing to stabilise employment and reduce the technological gap with foreign competitors. From the 80s onwards, the diffusion of ideas increasingly hostile to the involvement of the government in the economy, along with globalisation and technology shifting the value added from manufacturing to services, favoured a change of paradigm towards a horizontal approach, properly summarised by the definition contained in the Lisbon Strategy: “The main role of industrial policy at the EU level is to (...) provide the right framework conditions for enterprise development and innovation in order to make the EU an attractive place for industrial investment and job creation”. The shift from a sectoral industrial policy towards a horizontal approach resulted in confining the role of industrial policy at the EU level to the competition and state aid discipline, limiting states’ ability to use the sectoral approach. These models of industrial policy are not mutually exclusive.¹ Indeed, the concept has always been broader, allowing for the coexistence of framework aspects, horizontal policies and structural policies.² A broader definition was expressed in a recent report by CESifo, according to which industrial policy is “the set of government actions affecting companies (...) and their ability to compete both domestically and abroad”.³ This definition seems to have entered the language of the Commission in its Communication of 2010,⁴ but a fundamental problem remains: the two elements which provoke the elaboration of an industrial policy paradigm – changes in the global output chain and new ideas – are probably not present today.

Actually, there is very little evidence to allow the drafting of clear conclusions on the evolution of the global output chain in the aftermath of the global crisis. Whilst according to many the crisis is a systemic crisis of globalised capitalism that might trigger a reversal in globalisation – with the abandonment of export-led development strategies by emerging economies, the increase of

¹ Within the sectoral interventions, of which state aid is a good indicator, aid can shift from the manufacturing to the services and vice-versa in particular circumstances, as during the financial crisis of 1997. Also, horizontal policies can be promoted by particular interest groups and they can end up benefiting some sector to the detriment of others despite their trans-industry rationale.

² Pelkmans, J. (2006), “European Industrial Policy”, Bruges European Economic Policy Briefings n. 15, College of Europe, Bruges.

³ Calmfors, L., G. Corsetti, M. P. Devereux, G. Saint-Paul, H. Sinn, J. Sturm and X. Vives (2008), “Chapter 4: Industrial policy”, *EEAG Report on the European Economy 2008*, 105-124.

⁴ “An ambitious strategy framework for a new industrial competitiveness policy must put the competitiveness and sustainability of European industry at centre stage. This requires that industrial policy is understood in its wider sense.” EU Commission (2010), “Communication on An Integrated Industrial Policy for the Globalisation Era”, Brussels, COM(2010) 614.

regionalism in international trade, and the reinstatement of protectionism –, others argue that production has remained global, and the main pre-crisis trends – namely the consolidation of global value chains and the growing salience of the South – have been accelerated rather than reversed.⁵ The Communication of 2010, integrating the EU2020 Strategy, was elaborated before a set of multiple crises – ranging from the sovereign debt crisis in the Eurozone to the demise of the Doha round – which affected the European vision of globalisation, generally associated to a process of industrial shift towards a services-based economy. As such, the update released in 2012 assumes that competition in manufacturing will decrease its dependency on wage differentials, paving the way for a re-industrialisation in Europe.⁶ What should be acknowledged to find a proper place for Europe within the forthcoming – or current – global output chain, is that Europe is in a very balanced position with its external accounts, moving from a trade deficit to GDP ratio of 1.5% in 2000 to 1.2% in 2011.⁷ As such, the continent was a factor of global stability between an importing bloc in North America and an exporting bloc in East Asia, and it would better to keep its current account position. However, measures taken at the Eurozone level seem to go in the direction of an extra-EU export-led way out of the crisis through structural devaluation, which implies significant contradictions with the horizontal objectives stated at the EU level such as the employment and education targets. This will be highlighted in the next section.

2) The contradictions of industrial policy in today's Europe

The sovereign debt crisis in the Eurozone has put the policy framework related to the adaptation of the single market to globalisation at odds with many of the policy prescriptions adopted at the monetary union level. It is very unlikely that the set of horizontal measures suggested by the EU2020 and the Communications on industrial policies, not to mention the communication on new skills for new jobs, can significantly affect industrial change within a context characterised by restrictive budgetary discipline. The focus here is on the fields of education and labour markets.

Since the beginning of the crisis, the spending reviews have led to 30% cuts on higher education spending in Greece, 20% in Italy and between 5 and 10% in Ireland. Outside the Eurozone, the largest cuts happened in the Baltics, with Latvia cutting public funds to education by 66%. The UK proceeded to cut funding by 40% to be covered by a sharp raise of students' fees. On the contrary, Germany raised its public support to higher education both at the federal and local level.⁸ These asymmetries are likely to accelerate the brain drain from peripheral Eurozone to the core, widening the long-term productivity and innovation gaps that the imposed structural measures are supposed to eliminate.

As for labour markets, none of the countries under adjustment are in the position to adopt the reform paradigms advocated by the Commission and inspired by the flexicurity model, as resources for covering job transition and for active labour market policies are depleted. As such, the only flexicurity principle that can be implemented is turning out to be external flexibility, despite the fact that its results in terms of growth, employment and productivity are increasingly being called into question.⁹ Investing in training and life-long learning is hardly something that small and medium enterprises (SMEs) can do in a situation of tight credit and weak demand, as the normal corporate response to such a situation consists in downsizing, plant closure, reduction of investments in R&D and innovation, merger and acquisition and further international relocation.¹⁰ Italy can be taken as a good

⁵ Cattaneo, O., G. Gereffi, C. Staritz (2010), "Global Value Chains in a Postcrisis World", The World Bank, Washington DC, 3-27.

⁶ EU Commission (2012), "Communication on A Stronger Industry from Growth and Economic Recovery", Brussels, COM(2012) 528.

⁷ Source: Eurostat.

⁸ Source: European University Association.

⁹ Mandrone, E., and M. Marocco (2012), "La variante italiana della flessibilità", *ISFOL Research Paper*, n. 1, October 2012.

¹⁰ Already in 2010, CEDEFOP registered a constant decline in firms' expenditure for Continuing Vocational Training (CVT), affecting both SMEs and large businesses. CEDEFOP (2010), "Employer-provided Vocational

example of where SMEs who were structurally adapting to globalisation thanks to the comparative advantages offered by district economies¹¹ – also in the sectors most exposed to global competition – ended up being heavily burdened not just by a crisis of demand and credit but rather by a policy response that depressed demand further still. To sum up, when a downturn is cyclical – and a rise of the unemployment rate in the Eurozone of almost 5 points between 2008 and late 2012 associated to a financial crisis and budgetary cuts is all but structural – horizontal supply side policies like those suggested by the EU institutions will not create jobs out of nowhere. However, a relevant question is whether these reforms alone can lead to industrial change.

3) What is missing?

In the last decade, the largest industrial restructuring and relocation in Europe was fuelled by framework aspects that the theoretical definitions have never listed within the possible declinations of industrial policy. The present section intends to list those most important for the industrial developments in Europe over the last decades, to add them to the incomplete lists drafted by the aforementioned institutions.

The “manufacturing miracle” of the Eurozone’s surplus countries is usually attributed to supply-side interventions such as labour market reforms (the Hartz package) and especially wage moderation, resulting from the weakening of collective bargaining. But this analysis accounts more for the import side than for the export side. The export performance relied much more on the rise of price competitiveness stemming from the adoption of the euro.¹² Among the peripheral economies, the loss of competitiveness and the subsequent worsening of current account positions are usually attributed to labour market rigidities. Rather, de-industrialisation was favoured by patterns of deregulation and taxation in land and real estate, which helped to inflate the non-tradable sectors, focusing the economic activity on property transactions rather than on skills development, technical efficiency and competitiveness.¹³ For instance, between 1994 and 2007, manufacturing in Spain went from 20% to 15.2% of the total economic activities, whilst construction, real estate, renting and business activities rose from 14.3% to 23.1%, with similar proportions affecting other peripheral Eurozone countries.

As such, a broad approach to industrial policy cannot leave out neglected framework aspects such as taxation, financial regulation, or wage policies.

Stopping tax competition to benefit SMEs

Despite being the most integrated region of the world, Europe is also the one experiencing the fiercest levels of tax competition and social dumping. Both corporate and personal income tax rates fell by 10% over the last ten years, with taxes on labour keeping constant and levels of inequality reaching historical records in many EU countries. Reforms cutting income and corporate taxes along with inheritance and donations in countries such as Spain and Ireland, have actively promoted a rent-friendly environment, which, coupled with the financialisation of home-ownership, created what has been defined as a “residential” capitalism.¹⁴ Despite the significant impact of tax structures on industrial patterns, the taxation instrument is never mentioned in the Commission’s Initiatives on industrial policy. First of all this contradicts the purpose of helping the SMEs, constantly at the core of

Training in Europe: Evaluation and Interpretation of the Third Continuing Vocational Training Survey”, CEDEFOP Research Paper, n. 2, http://www.cedefop.europa.eu/EN/Files/5502_en.pdf.

¹¹ Or “skill ecosystems” in the definition of Payne, J. (2007), “Skill Ecosystems: a New Approach to Vocational Education and Training Policy”, *SKOPE Issues Paper* 14, Oxford and Cardiff.

¹² Lehdorff, S. (2012), “German Capitalism and the European Crisis: Part of the Solution or Part of the Problem?”, in “A Triumph of Failed Ideas – European Models of Capitalism in Crisis”, S. Lehdorff (ed.), ETUI, Brussels, 79-98.

¹³ Lopez, I. and E. Rodriguez (2011), “The Spanish Model”, in *New Left Review* 69 (May-June 2011), 1-28, <http://newleftreview.org/II/69/isidro-lopez-emmanuel-rodriguez-the-spanish-model>.

¹⁴ Schwartz, H. and L. Seabroke (2008), “Varieties of Residential Capitalism in the International Political Economy”, in *Comparative European Politics*, 6, 237-261.

the support for job creation as stated in the EU2020's Flagship Initiative on inclusive growth. Despite the fact that SMEs account for two thirds of European jobs in the private sector, they are burdened by compliance costs for cross-border activities in a very asymmetric way compared to large businesses, able to extract the largest advantages from tax competition. Putting an end to tax competition and switching towards harmonised schemes would be a powerful tool to prevent the asymmetric asset inflations that led the Eurozone to the verge of collapse.

Wage policies and portability of rights to match the right skills with the right jobs

Skills constitute the core of the Commission's Communications on industrial policy, and are of course critical for the construction of a knowledge-based economy. A flaw of the European strategies has been to identify a services-based economy with a knowledge-based economy, assuming that services always require more skills and innovation than manufacturing.¹⁵ As a consequence, tertiary education is promoted with no assessment of the dynamics of skills demand. In peripheral countries such as Spain, the expansion of tertiary education has not been associated with a significant increase in the demand for skilled jobs during the pre-crisis years.¹⁶ Mismatch coupled with overqualification had a higher incidence in Greece and Spain, whilst pure mismatch heavily occurred in Portugal and France.¹⁷ Supply of skills can therefore be associated with the emergence of a low-wage and high-skilled economy, according to a phenomenon of "digital Taylorism", which results from the opening up of labour markets to global competition. As such, lamenting skill shortages – as is persistently seen in the Commission's Communications and Flagship Initiatives – at a time when the most overqualified generation in the history of Europe is facing an unemployment crisis is a paradox. Basic economics would suggest that companies suffering a lack of skills should increase salaries. But on the contrary, the conditionality associated to the new Eurozone governance instruments insists on wage moderation and the increasing limitation of workers' bargaining power in the Eurozone's peripheral countries. This clearly does not go in the direction of matching the right skills with the right jobs but rather incentivises early leavings from education and fosters income gaps within the EMU. While the problem of skill shortages can be faced with a different and integrated wage policy, the problem of skill mismatches is rooted in limited labour mobility, for which portability of rights is a critical factor. Despite the Commission emphasising how low the intra-EU labour mobility is even in the aftermath of an asymmetric employment shock, it still considers the lack of mobility as a matter of workers' adaptability and employability, downplaying the critical aspect of the legal and administrative burden associated to cross-border work.¹⁸ Calls for harmonising the legislation and fostering the portability of rights still meet significant obstacles at the national level

Innovative financing requires public intervention

The final and fundamental point is that it is very hard to have an industrial policy without a budget. The reason is that unless it is sectoral, industrial policy does not contribute in itself to job creation. Horizontal policies focusing on skill enhancement and labour market reform do not translate into jobs as long as demand does not pick up. Reducing the European resources and at the same time constraining the national budget is a deadly combination that is hardly reconcilable with the ambitions stated in the EU2020 Strategy. The notion of European public good should enter into the political vocabulary through the acknowledgement of the fact that centralising the expenditure in certain areas gives a much larger leverage than keeping it at the local level.¹⁹ Public interventions can range from

¹⁵ Schneider, R. (2011), "Skills: Beyond the Supply Side", in "Exiting from the Crisis: Towards a Model of More Equitable and Sustainable Growth", D. Coats (ed.), TUAC-ITUC-ETUI, 203-210.

¹⁶ Dolando, J. J., M. Jansen, and J.F. Jimeno (2004), "A Matching Model of Crowding-out and On-the-Job Search", Mimeo, Universidad Carlos III.

¹⁷ Brunello, G., P. Garibaldi, and E. Wasmer (eds.) (2007), "Education and Training in Europe", Oxford University Press, Oxford, 57-69.

¹⁸ EU Commission (2012), "Communication on Towards a Job-rich Recovery", COM(2012) 173, http://ec.europa.eu/commission_2010-2014/andor/headlines/news/2012/04/20120418_en.htm.

¹⁹ Begg, I., A. Sapir and J. Eriksson (2008), "The Purse of the European Union – Setting Priorities for the Future", SIEPS Report,

support for innovation and investment to support for start-ups, from better organised public procurement to identifying markets with the best growth potential for jobs, from coping with the consequences of the crises in distressed areas to investing in continuing vocational training when companies lack access to credit. But as long as there is no budget for this, an industrial vision should at least focus on framework aspects aimed at preventing bad – or asymmetric cycles – from occurring. To this extent, a closer harmonisation of taxation and wage policies within the EMU would be of paramount importance and – given their effects on the national industrial structures in the last decade – should be a critical part of an industrial policy for Europe.