

**From catching up
to
meeting the grand challenges**

A quasi-historical typology of industrial policy

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Industrial policy

- Industrial policies are state policies that aim to have an impact on the structure of the economy
 - Sectoral structure
 - Often, but not always focused on and limited to manufacturing industries

Views of the role of the state in the economy

	The orthodox view	The heterodox view
	Unfettered competition between freely acting people is the best way to achieve the highest good for all.	There is no reason to assume that unfettered competition will lead to a situation that is beneficial to all.
Theoretical foundations	General equilibrium theory	Schumpeter
Level	Hayek	Keynes
	Friedman	Myrdal
macro	<p><i>Laissez faire</i></p> <p>Maintaining civil law, protecting private property and enforcing contracts.</p> <p>Defense requirements may be a reason for government intervention.</p> <p>Investment in public goods (infrastructure) are acceptable.</p>	<p>The state must protect the poor and less powerful.</p> <p>Legislation on child labor, labor hours, compulsory education, collective bargaining, minimum wages, social security.</p> <p>Fiscal policy is needed to maintain full employment in view of unavoidable fluctuations in demand.</p>
Micro/meso	<p>Competition policy</p> <p>When companies become so big that they dominate their markets, it may be necessary for government to intervene.</p> <p>In case of evident market failure, take action to create a (regulated) market.</p>	<p>Industrial policy is necessary to compensate for various imbalances in the (national as well as the global) economy which lead to unacceptable outcomes without state intervention .</p> <p>In case of evident market failure, take action to replace the market by other forms of coordination.</p>

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Four types of industrial policy

- *Policies for catching up*
 - *19th century Germany and United States*
 - *20th century developing countries*
- *Restructuring policies*
 - *1960s and 70s: new international division of labor*
 - *Towards a service economy*
- *Innovation policies*
 - *Riding the long waves*
 - *The ICT revolution*
- *Transition policies*
 - *Sustainability*
 - *The grand challenges of the 21st century*

A typology of industrial policies

	Investing in scale	Investing in technology
Driven by business interests	<p><i>Catching up policies</i></p> <p>Designed to allow local businesses to expand and acquire minimum efficient scale in order to catch up with global competition</p> <p><i>Instruments</i></p> <p>Mainly trade restrictions and local content rules</p>	<p><i>Innovation policies</i></p> <p>Designed to support national and regional industries to keep up with or lead in technological research and applications on the frontiers of technology</p> <p><i>Instruments</i></p> <p>direct and indirect R&D subsidies, programs focused on specific technologies</p>
Driven by social interests	<p><i>Restructuring policies</i></p> <p>Designed to soften the impact on employment in specific sectors that have irrevocably lost competitiveness and/or their reason for existence</p> <p><i>Instruments</i></p> <p>Mainly support for consolidation in the industry and further mechanization/automation in order to achieve scale advantages</p>	<p><i>Transition policies</i></p> <p>Designed to ensure that the economy develops in a sustainable way, reducing CO₂ emissions, saving energy, recycling, moving towards a circular economy while meeting the <i>grand challenges</i> of the 21st century</p> <p><i>Instruments</i></p> <p>Regulation, coordination in the <i>triple helix</i>, subsidies for research and investment in energy transition</p>



Invisible hand