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Industrial policy in Europe since the Second World War: what has been learnt?

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Prompted by the revival of interest in industrial policy in several European countries, *Sir Geoffrey Owen* considers what lessons can be learned from earlier European experience in a new ECIPE study. He focuses mainly on sectoral or targeted industrial policy, designed to improve the performance of particular industries. The events described by Sir Geoffrey's paper cast serious doubt on the notion that governments can create competitive advantage through direct intervention, and on their ability to select winning technologies or industries. The main conclusion of his paper is that industrial policy should be horizontal rather than sectoral, and embedded in a set of policies and institutions which promote competition, encourage innovation and facilitate industrial change.

Since the Second World War European industrial policy has passed through two phases. The first, starting in the 1960s, saw a series of attempts by governments, especially those of the UK and France, to create national champions in industries deemed essential to the health of the national economy. Among the favoured sectors were high-technology industries such as aerospace and computers; part of the motivation was to narrow the "technology gap" between Europe and the US. There was also a widely held belief in scale as the key to international competitiveness.

With some exceptions these interventions were generally unsuccessful. Policy-makers tended to overrate the risks and costs of market failures and to underestimate those associated with government failures. There was also a mistaken assumption that there were certain technologies which a country somehow needed to have, and that they were more likely to be acquired through centralised direction than through competitive markets. The cost to the taxpayer of ill-judged industrial policy was high.

From the 1980s, with the UK setting the pace, there was a shift towards horizontal, non-selective policies aimed at improving the environment for all firms. Both at the national and at the European level (through the Single Market Programme), more emphasis was placed on competition. The ability of governments to support their industries was curtailed, and previously protected sectors such as telecommunications and electricity were partially liberalised. At the same time, new institutions were established – the Framework Programme and Eureka – to promote intra-European cooperation in research.

The surge in US productivity growth from the mid-1990s, linked to the rapid application of information technology, led European governments to rethink their approach to industrial policy. The new priority was to encourage the growth of entrepreneurial high-technology firms on the American model, to develop the venture capital industry and to make stock markets more accessible to younger companies.

By the early 2000s some progress had been made, but there was still a wide productivity gap with the US, and in several high-technology sectors, such as information technology and biotechnology, European firms were lagging behind their American counterparts. (The aerospace industry, through Airbus, was a notable exception.) There was also a growing concern about de-industrialisation, attributed in part to the shift of manufacturing to China and other emerging economies.

The financial crisis of 2008-09 heightened these anxieties, causing governments not only to provide short-term help to ailing industries such as the car manufacturers but also to consider whether a more active industrial policy might be needed in the longer term. Some economists argued for a revival of sector-based policies in a form that would avoid the mistakes of the past.

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