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Models of Industrial Policy: Driving Innovation and Economic Growth

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Brussels, 6 May 2025 - The latest [ECIPE Occasional Paper](#) examines Europe's shift towards large-scale state intervention and questions whether this approach can deliver sustainable competitiveness without a clearer strategic direction.

With state aid in the EU reaching 1.4 per cent of GDP in 2022, levels unseen since the early 1990s, Europe has moved away from earlier economic strategies that focused on horizontal policies such as market liberalisation, competition enforcement, and support to R&D. This shift has been driven by successive crises, from the financial crash to COVID-19 and the energy transition, and the perception that global competitors are no longer playing by the rules of free trade.

This paper shows that while industrial policy can support economic development, it is not a guarantee of success. All successful economies have used industrial policy, but so have all unsuccessful ones. Its effectiveness depends on design, the ability to avoid market distortions, and the capacity to stimulate private-sector investment.

"The current EU model too often prioritises incumbent firms, direct grants, and middle-technology sectors," says Fredrik Erixon, a co-author of the study. In contrast, the paper explores alternative models in the US, South Korea, Switzerland, and Ireland, which offer targeted and outcome-driven strategies focused on innovation, FDI, and human capital.

The analysis concludes that EU industrial policy remains heavily dependent on broad subsidies, often lacking a framework for long-term competitiveness. A more targeted approach, inspired by successful international models, could improve its impact and help achieve genuine economic transformation.

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