A new approach to industrial policy

Professor Patrizio Bianchi
University of Ferrara and
Emilia Romagna Regional Government
The world crisis is not only the dramatic effect of the financial collapse, but it is the structural readjustment after the end of Bilateral Equilibrium and starting of Globalisation

(IMF data: IMF Data Mapper Jan 2013)
Since the end of WWII, the world GNP growth was leaded by the developed countries; after the decade of structural readjustment following the collapse of Planned Economies, the world dynamics is leaded by other major economies.
Countries react differently to the global crisis
Adam Smith

• “As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market” (WN, I,3, p.40)
Extent of the market
Division of labour
Power of exchanging

World-wide industrial reorganization:

- Delocalization of specific production from a country to another country
- World-wide unbundling of the entire production cycle
- De-linking of service and manufacturing steps
CRISIS:
Countries reacted differently to the change in the extent of the market determined by globalization.
OECD technology intensity based on % breakdown of net sales

R&S, Multinationals: financial aggregates, 376 companies, Milan 2012
And differently invested in Human capital

Public expenditure on education 2010 as % total exp. And as %GDP
And in research

**GERD OECD, oct 2012**

Gerd oecd in mil. dollar current

- **Usa**: 400,000
- **China**: 150,000
- **Jap**: 100,000
- **Ger**: 80,000
- **Fra**: 50,000
- **UK**: 30,000
- **Ita**: 20,000
EVIDENCE ON MANUFACTURING:

strategies of localization of the different stages and of control of the entire cycle of production:

Smith again:
Work done and work to be done
(WN, I, VII, 19, 76-77)
• We can delocalize “work done” steps according to static advantages,
• but “work to be done” requires dynamic advantages

• In case 1) the attraction policy is to reduce costs
• In case 2) the attraction policy is to build positive externalities for human and social capital
the present attention to Manufacturing Reinassance is the evidence that

De-linking work done and work to be done steps of production involves the risk of:

- loosing the control of production cycle
- loosing capabilities to transform innovation into production
- loosing the capacity to accumulate knowledge and competences of production
“The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement, …seem to have been the effects of the division of labour” (WN, I, I, p.13)
A strategy for increasing added value and the efficiency of the production system requires a basic infrastructure for increasing human capital training and mobility.
Which are the setting targets for specialization and complementarity of competences

- Adopting the technologies more relevant for our country in our times
- Understanding of the complexity of present world and the relation between the needs of our country and the dynamics of world economy
- Consolidation of the social intangible capital
Rethinking industrial policies today means to redefine the basic concepts of collective, human actions and to put them in a dynamic perspective.

In this context it is necessary to redefine the basic concept of development and the instrument to support economic and social growth.
The recent debate on development and the experiences of European policy making have stressed two basic concepts to analyse economic dynamics and structural change.

INNOVATION

TERRITORY
These two concepts are necessary but not sufficient to define the new idea of development.

We introduce the two concepts of ENTITLEMENTS and PROVISIONS.
INNOVATION POLICIES

EDUCATION POLICIES

WELFARE POLICIES

INNOVATION POLICIES

provisions

entitlements

territory
The Case of China

- Human Capital Policies
- Innovation Policies
- Social Policies
- Territorial Policies
The Case of South Africa
• The new industrial policies is a vision of the future

• Different visions are possible, but each choice involves opportunities and risks

• There is a coherence issue in defining the vision and in making the specific policies
Policy making is a matter of complexity
The state in the globalization era is a complex interaction of independent authorities.
Whole-of-government approach
Consistency of actions among the different policy makers ("all-the-governments" approach)
• What is the proper lever for policy integration?
• Regional/ macroregional
• National
• European

• The consistency issue in policy making:
Goals, governance, instruments
One strategy to raise the added value and the efficiency of the productive system is to provide infrastructure with a view to raise human and social capital.
Two examples of systemic approach to industrial policy

1) ER technical education reform
   June 2010 to June 2012
2) The reconstruction of schools
   after the May 2012 earthquake
   May – November 2012
1. Education reform

Education and professional training

Polytechnics’ network

Higher education, research and international mobility

Competencies and labour
Reconstruction of schools in the Emilia-Romagna Region after the 20-29 May 2012 earthquake

896 schools in need of control (building stability)
139 unusable schools
26 unusable schools for external causes
306 partially unusable
70,000 pupils in the whole earthquake territory
18,000 pupils in the unusable schools
5 months after the earthquake:

All pupils are at school
All the unusable schools have been rebuilt in prefabricated class A buildings
All damaged schools have been repaired by the municipalities
We have a new high tech lab in a traditional sector
All policies have converged: territory, education, welfare and innovation
Learning from reconstruction

• the capacity of reaction to the external event is depending on the capacity of the local community to be solid and resilient

• Enforcing entitlements of people to be properly educated stimulates capability for innovation and for rebuilding territorial capacities
INDUSTRIAL POLICY IN THE EMILIA-ROMAGNA REGION: a long tradition
(Bianchi and Labory, Policy Studies, 2011)

- 1980s: ER is model of flexible specialisation, with industrial districts in traditional sectors
- 2000s: ER is model of regional innovation system, innovative region
RER policies in practice

- Social policy
  - 1980s

- Technical High School
  - 2010 onwards

- Spinner, creation of new innovative firms
  - Mid-2000s

- Technopoles
  - From 2000

- Technological districts
  - Mid-90s

- Real business services
  - End- 80s and early 90s
what social policy for a regional innovation system?
What is the goal of policy making?
What is the goal?

- Growth
- Development
- Social happiness
Rethinking industrial policies today means redefining the basic concepts of collective actions and putting them in a dynamic perspective.