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What “North Star” for EU industrial policy?

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What “North Star” for EU industrial policy?

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The past decades have marked a gradual shift towards greater reliance on goal-based strategies, also due to the reckoning of significant limits in the neoclassical economics model of GDP growth. This led policymakers and experts to look for a more multi-dimensional measures of progress, with an agenda focused on a medium-term vision for society, the economy and the environment. At the EU level, the transition towards goal-based agendas became evident with the launch of the decade-long [Lisbon strategy](#) in 2000, and later with the [Europe 2020 strategy](#). The global agreement on the Sustainable Development Goals in 2015 brought new momentum for goal-based strategies. The need to go beyond GDP was endorsed i.a. by the UN Secretary General’s Report on “Our Common Agenda”, and by the Think7 Communiqué under the G7 Japanese Presidency in April 2023. That said, the ongoing debate on “beyond growth”, while fully aligned on the need to go beyond GDP, has not converged on a univocal alternative framework. And in the meanwhile, new priorities have emerged from the COVID-19 pandemic and the threat of war in Europe in the near future.

The current European Commission is a perfect example of this *impasse*. The initial commitment to the SDGs shown in [2020](#) has gradually waned; and recent speeches by Ursula von der Leyen were much more focused on competitiveness and security than they were on sustainability. In industrial policy, in 2020 the Commission focused on “competitive sustainability”, centred around four dimensions (environment, productivity, macroeconomic stability and fairness); [one year later](#) the agenda shifted to “sustainable competitiveness”; and then went back, at least in some documents, to competitive sustainability. Eventually, the 2023 State of the Union [speech](#) marked a shift towards an unqualified “competitiveness” goal, a topic that will form the subject of an *ad hoc* study entrusted to Mario Draghi.

This situation was complicated by geo-political, risk- and security-related goals that started massively affecting the EU’s agenda. The pandemic, the war in Ukraine and the need to reduce energy dependencies led the EU to introduce new goals that significantly guided EU actions over the past three years. A potential trade-off has emerged between the pursuit of an open strategic autonomy policy and the quest for sustainable competitiveness. This is apparent if one considers that the four axes of sustainable competitiveness include openness to trade, a goal that is not fully compatible with current approaches to strategic autonomy. Later, the quest for economic security led the Commission to implicitly demote sustainability, replacing it with a strong emphasis on security. Much in the same vein, the Commission recently developed a [plan](#) to reduce external

¹ This essay was prepared under the economic advisory programme of DG GROW of the European Commission – the 2023 DG GROW fellowship Programme. The opinions are those of the author and should not be considered as representative of the European Commission’s official position.

dependencies, and seek leadership in critical technologies that will drive the future of innovation and industrial leadership.

Against this background, it appears quite clear that the stated ultimate goals of the EU, have constantly changed over the past four years, and so has the related narrative, and the agendas and priorities pursued by EU institutions. But just as sailors cannot easily find their direction if their reference point keeps shifting, here too it is unlikely that the EU, given a plethora of alternative North Stars, could find its way into a desirable and meaningful goal-based strategy.

Europe's choice: paving the way for a future industrial policy

The real question that emerges is thus: can Europe pursue an economic security/strategic autonomy agenda, while at the same time decarbonising its economy and achieving global competitiveness? Faced with the end of easy choices, and the dawn of the [poly-crisis age](#), the EU must address several outstanding challenges, as well as unresolved dilemmas. The realisation of the distributional impacts of the Green Deal across the EU territory (see [Rodriguez-Pose and Bartalucci 2023](#)) was made vividly clear by the protests of the small farmers in the major European capitals, including Brussels, at the beginning of 2024. The need to support Ukraine's defence against Russia and future accession to the EU, with estimated costs of €110–€136 billion to the seven-year EU budget, potentially conflicts with the need to set aside resources for the twin transition, an endeavour that, as recently observed by Mario Draghi, may require own resources at the EU level for at least 500 billion Euros a year.

In the coming months, and throughout the election period in mid-2024, EU leaders will have to take a stance on many issues, including how to make sense of the “twin transition”; how to incorporate sustainability, resilience and good jobs in a process of systemic industrial transformation, by embracing an Industry 5.0 approach; how to use conditionalities in a possible, future pan-European industrial policy; what will be the role and configuration of the Single Market, and what possible “third way” could be pursued between a purely market-based view, and the relaxation of state aids rules; and how to incorporate in EU industrial policy territorial specificities and impacts to ensure a balanced transition towards the well-being of all citizens, as well as a good matching of technological specialisation and relatedness with available skills and local needs.

Future EU industrial policy should thus incorporate at least the following four elements: (i) **a clear distinction between intermediate and ultimate goals** (the latter possibly being based on sustainable development or “people, planet and prosperity” pillars); (ii) a **foresight-based approach**, aimed at incorporating uncertainty, leveraging risk management and stress-testing strategies and pathways for enhanced resilience, especially of supply chains; (iii) a **poly-centric governance approach**, based on a granular understanding of the differences and technological relatedness across European regions, and aimed at clearing specific paths for large-scale industrial investment; and (iv) a **human-centric, resilient and sustainable approach** to systemic industrial transformation in the formulation of transition pathways, turning them into concrete “transformation pathways” and including, crucially, the “good jobs” and “economic security” dimensions.

A six-step approach to the systemic transformation of European industry

Figure 1 below shows a possible 6-step approach to a future EU industrial policy. The figure sketches a framework that goes from the entry into office of the next Commission in late 2024 to the end of the following decade. More specifically, the steps are described below.

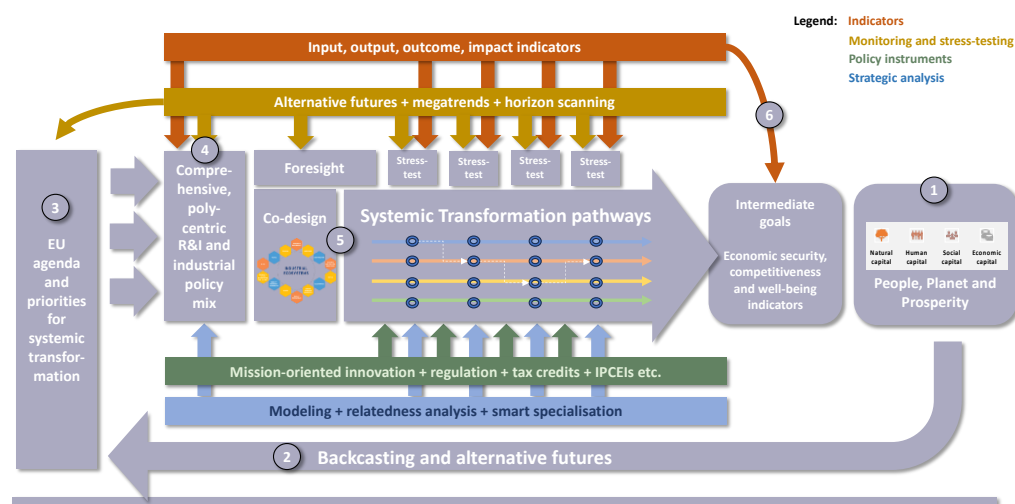
- Step 1. *Selection of the final goals.*** In this phase, EU policymakers will have to choose the so-called North Star, ideally aligned with “people, planet and prosperity”, and certainly going beyond the goal of maximising GDP growth, or competitiveness. These goals should also be fully mainstreamed in the multi-level governance of the EU, and namely in the European semester, in cohesion policy, as well as in trade policy, large-scale spending programmes and Single Market policies. Ideally, they should be spelled out both for 2030 (end of the legislature) and for 2040 (longer term). Even more ideally, they should be discussed with a large group of stakeholders.
- Step 2. *Backcasting and alternative futures.*** The final goals selected in Step 1 must be analysed in terms of their feasibility under a variety of alternative future scenarios. These should account for macro trends, horizon scanning of future technologies, and modelling of future unlikely and unforeseen shocks. One key question is how to avoid worst-case scenarios, and whether to pay extra attention to possible moves that make the worst-case scenario more plausible. Backcasting implies that policymakers ask themselves the following sets of questions: What societal and economic changes may lead Europe to achieve its final goals? What intermediate goals would be necessary? What policies and investment programmes are likely to make goal achievement more likely? Which ones are most likely to shield Europe from unforeseen shocks? In answering these questions, policymakers may want to adopt a mission-oriented approach, which implies a portfolio of policies with enhanced attention to the possibility to course-correct these policies over time.
- Step 3. *Setting the agenda and policy priorities.*** Step 2 should translate into a multi-annual policy and investment programme, aimed at realising the actions identified in the backcasting. The Commission’s Work Programme should mention the new legislative and investment initiatives planned for the year ahead, and their link to the intermediate and final goals to 2030 and 2040. The publication of the Work Programme should be accompanied by a stocktaking communication on the progress achieved towards the 2030 goals.
- Step 4. *A comprehensive, poly-centric R&I and industrial policy mix.*** This should aim at achieving economic security, competitiveness, sustainability and “good jobs”, to be spelled out more concretely in the form of transformation pathways. It should include, at a minimum: (i) *A new pan-European investment programme* financed with own resources, replicating Next Generation EU yet with the aim of building a much more consistent, centrally coordinated and locally tailored actions; (ii) *a reformed better regulation agenda* that mainstreams the 2030 goals and allows for stress-testing and

experimentation; (iii) a *Research and Innovation Framework Programme* that is deeply coordinated with cohesion policy and structural funds; (iv) a *limited number of EU-funded, large-scale industrial transformation projects* accompanied by *ad hoc* fiscal measures, tax credits and simplified permitting arrangements; (v) a *regional/cohesion policy complementary to the EU-level measures*, as well as by an in-depth analysis of the economic and technology specialisation of each region; and (vi) a *new strategy for the restructuring and resilience of supply chains*, based on evolving priorities related to enlargement and external action (e.g., the Global Gateway programme).

Step 5. Co-creation and implementation of systemic transformation pathways. The horizontal policies described above should translate into consistent priorities at the ecosystem level. Transition pathways could be revamped as systemic transformation pathways, and should be designed based in a way that leverages the (actual and potential) economic and technology specialisation of the different regions of the EU. In this phase, particular attention should be devoted to the more foundational ecosystems, such as those for energy-intensive industries and for digital, in order to ensure that the twin transition contributes to meaningful and diffuse progress towards the 2030 goals, accounting for possible shocks along the way. Systemic transformation pathways will have to be expanded to gradually include also accession countries and possible non-EU countries that participate in key phases of an ecosystem’s value chains.

Step 6. Monitoring and possible course-correction towards the final goals. This phase implies the selection of input, output outcome and impact indicators; as well as the monitoring of such indicators against the goals to be achieved. In choosing the direction to be taken by systemic transformation pathways, policymakers will adopt a mission-oriented approach, as well as a risk mitigation approach, which prioritises (all other conditions being equal) those options that can be more easily course-corrected in case of shocks and unforeseen events.

Figure 1 – A 6-step approach to EU industrial policy



Source: author

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