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The Political Economy of Industrial Policy in the European Union

Fabio Bulfone

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Abstract

The Great Recession renewed calls for a return of state activism in support of the European economy. The widespread nationalization of ailing companies and the growing activism of national development banks led many to celebrate the reappearance of industrial policy. By reviewing the evolution of the goals, protagonists, and policy instruments of industrial policy since the postwar period, this paper shows how state intervention never ceased to be a crucial engine of growth across the EU. It argues that the decline of the Fordist wage-led production regime marked a turning point in the political economy of industrial policy with the transition from inward-looking to open-market forms of state intervention. The main features of open-market industrial policy are then discussed referring to the cases of the internationalization of national champions in public service sectors and the proliferation across the EU of industrial clusters. Finally, the paper reviews postcrisis instances of state intervention and highlights how, rather than breaking with past tendencies, the Great Recession further accelerated the shift towards open-market industrial policy.

Keywords: comparative capitalism, European integration, Germany, industrial policy, national development banks

Zusammenfassung

Die Große Rezession hat Stimmen wieder laut werden lassen, die nach neuen Eingriffen des Staates zur Stützung der europäischen Wirtschaft verlangen. Die allerorts zu beobachtende Verstaatlichung angeschlagener Unternehmen und der wachsende Aktivismus staatlicher Entwicklungsbanken veranlassten viele dazu, die Wiederbelebung der Industriepolitik zu feiern. Anhand eines Rückblicks auf die Entwicklung der Ziele, Protagonisten und politischen Instrumente der Industriepolitik seit der Nachkriegszeit zeigt dieses Papier auf, dass staatliche Interventionen nie aufgehört haben, ein entscheidender Motor für das Wachstum in der gesamten Europäischen Union zu sein. Es vertritt die These, dass der Niedergang des fordistischen lohngetriebenen Produktionsregimes einen Wendepunkt in der politischen Ökonomie der Industriepolitik markierte, an dem ein Übergang von nach innen gerichteten zu an offenen Märkten orientierten Formen staatlicher Interventionen stattfand. Die Hauptmerkmale dieser marktwirtschaftlichen Industriepolitik werden dann anhand von Fällen der Internationalisierung nationaler Champions im öffentlichen Dienstleistungssektor und der Verbreitung industrieller Cluster in der EU diskutiert. Abschließend werden Beispiele für staatliche Interventionen im Nachhall der Krise untersucht, die aufzeigen sollen, wie die Große Rezession den Wandel hin zu einer marktwirtschaftlichen Industriepolitik weiter beschleunigt hat, anstatt mit früheren Tendenzen zu brechen.

Schlagwörter: Deutschland, europäische Integration, Industriepolitik, staatliche Entwicklungsbanken, Vergleichende Kapitalismusforschung

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The Political Economy of Industrial Policy in the European Union

1 Introduction

Over the last decade, industrial policy has become something of a buzzword in debates about the European economy. Or, as *The Economist* famously argued, the term was "back in fashion" among policy-makers, journalists and academics alike (Economist 2010). This revival was mainly caused by the dramatic economic repercussions of the Great Recession, which called into question the neoliberal consensus and forced even the US and the UK to bail out large domestic banks and struggling carmakers. The fact that the two bastions of neoliberalism were at the epicenter of the crisis unavoidably tarnished the aura of infallibility of "self-regulating" markets (Wade 2012, 244).

Between 2007 and 2009, nationalizations reached a value of between 220 and 320 billion dollars (Voszka 2017, 96). Despite the fact that these operations were deemed to be temporary, governments across the advanced world still retain many participations acquired at the peak of the crisis. The meltdown of Anglo-American capitalism was counterbalanced by the resounding success of myriad Chinese state-influenced multinational enterprises (Aiginger and Rodrik 2020, 189–90). In another evident sign of the resurrection of state capitalism, even countries that historically showed little appetite for public intervention like Germany and the UK are now embarking on long-term industrial policy strategies (Federal Ministry for Economic Affairs and Energy 2019; HM Government 2017). German state authorities stand out for their recent activism, with the implementation of many initiatives ranging from the "Industry 4.0" plan to the *Industrial Strategy 2030* and the manifesto for a new European industrial policy recently signed with France (Buigues and Cohen 2020, 276).

Like the Great Recession, the recent coronavirus emergency prompted once again calls for the state to play a more activist role in the economy. The European Commission lifted state aid restrictions and allowed, even encouraged, member states to acquire stakes in strategic companies to fend off the threat posed by Chinese cash-rich state-backed giants (Financial Times 2020a; 2020b). This paper aims to show that this postcrisis rediscovery of industrial policy amounts more to a rhetorical shift than to a real policy change, as state intervention never ceased to be an important ingredient of industrial

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upgrading across Europe, as elsewhere (Cherif and Hasanov 2019, 9). It does this by tracing the evolution of *goals, protagonists*, and *policy instruments* of industrial policy in the EU since the postwar period to show how the Great Recession did not mark a watershed moment, but was rather the last step in a process of reconfiguration of the role of the state in the economy dating back to the transition to the Post-Fordist model of production in the 1970s (Volberding 2016, 5).

The rest of the paper is organized as follows. Section two outlines the analytical framework calling for an integration of industrial policy in current debates on the political economy of European integration. The third section reviews the main elements of the inward-looking patterns of state intervention characterizing the first three decades of the postwar period. The fourth section argues that the transition from the Fordist to the Post-Fordist production system caused the decline of inward-looking industrial policy and the emergence of new open-market patterns of state intervention characterized by new goals, protagonists, and policy instruments. The penultimate section reviews some high-profile cases of state intervention in the aftermath of the Great Recession. It highlights how, rather than marking a radical discontinuity, let alone a return of the state, they should be seen as accentuations of precrisis tendencies. The conclusion discusses the findings and outlines pathways for future research.

2 Analytical framework: The alleged decline of industrial policy

This section reviews the recently revived debate about the political economy of industrial policy in the EU. In doing so, it aims to meet four goals: to provide a definition of industrial policy, to point to the scant attention given to this theme among scholars of European capitalism, to call into question the analytical leverage of the frequently reiterated distinction between horizontal and vertical forms of state intervention, and to engage with the liberal economic patriotism framework as developed by Ben Clift and Cornelia Woll.

Industrial policy is defined as any state intervention aimed at channeling resources to specific industries, sectors, or firms through an array of instruments including credit, equity, tax exemptions, and public procurements (Ahrens and Eckert 2017, 25–26). A range of state actors can engage in activist industrial policy, from the central government to regional or municipal authorities and from state-owned development banks to sovereign wealth funds and unelected specialized investment agencies. The expected industrial upgrade is ultimately meant to serve long-term economic policy *goals* such as fostering employment, growth, and export competitiveness (Katzenstein 1985, 25).

Despite signs of a recent reappraisal (Brazys and Regan 2017; Clifton, Díaz-Fuentes, and Revuelta 2010; Colli, Mariotti, and Piscitello 2014; Mertens, Thiemann, and Volberding

2020; Ornston and Vail 2016; Thatcher 2014b), industrial policy is still understudied among scholars focusing on comparative capitalism and EU public policy. According to a widespread view within the field, by limiting the effectiveness of protectionist measures and Keynesian demand management, from the 1980s the deepening of EU market integration has caused the demise of activist industrial policy (Häusermann and Kriesi 2015, 208; Leibfried et al. 2015; Levy 2006, Introduction; Cohen 2007, 207).

The wave of privatization and liberalization within the European economy between the 1980s and 1990s further corroborated this diagnosis, leading academics to shift their focus to the study of state intervention in rising economies like Brazil, China, or India (Ban 2013; Ban and Blyth 2013; Nölke et al. 2015). Despite the many merits of this refocus, it came at the cost of neglecting the efforts the *old* states of Europe were making to engineer *new* forms of industrial policy compatible with the Post-Fordist regulatory framework (Clift and Woll 2012; Naqvi, Henow, and Chang 2018; Ornston and Vail 2016; V. A. Schmidt 2009).

A less pessimistic take on industrial policy has it that the transition from the Fordist to the Post-Fordist model of production led to the demise of "vertical" industrial policies targeted at specific firms or sectors, in favor of pro-business "horizontal" interventions (Genschel and Seelkopf 2015, 236; Trouille 2007, 506; Vukov 2019). Underlying this shift of focus is the idea that, rather than "picking winners," state actors should implement measures aimed at establishing a favorable regulatory environment for all companies. Prescribed horizontal measures include reducing corporate taxation, strengthening the education and vocational training system, improving the infrastructural network, and flexibilizing the labor market (Aiginger and Rodrik 2020, 195; Durazzi 2019; Wade 2012, 226). Within the EU, the European Commission has emerged since the 1980s as the main advocate of horizontal industrial policy interventions (Cohen 2007 222; Pianta 2014, 278–79).

This view was recently espoused by Torben Iversen and David Soskice, who argue that advanced capitalist states can help the emergence of knowledge-intensive industrial clusters by establishing competitive product markets and fostering investment in research and development (Iversen and Soskice 2019, 10). Although few would deny that state actors increasingly engage in pro-business horizontal policies, this did not lead to the demise of vertical measures targeted at specific firms or sectors altogether. To the contrary, in a globally interconnected economy dominated by a handful of corporate giants, industrial policy increasingly takes the form of bilateral interactions between state elites and large multinationals (Bohle and Regan 2019; Brazys and Regan 2017, 411–17; Colli, Mariotti, and Piscitello 2014, 488–95).

Hence, while the neoliberal turn taken since the 1980s by the process of EU market integration profoundly altered the patterns of state intervention in the economy, the very nature of this transformation cannot be captured by relying on a dichotomous distinction between vertical and horizontal forms of intervention. Instead, the following sections show how the evolution of state intervention in the EU can be better traced by distinguishing between the inward-looking industrial policy carried out by elected officials characterizing the Fordist era and the open-market interventions carried out by technocratic actors employing financialized products typical of the Post-Fordist era.

To trace the evolution of state intervention across the EU, this work builds on Cornelia Woll and Ben Clift's (2012) seminal contribution on liberal economic patriotism. According to Clift and Woll, supranational market integration presents elected officials with the difficult task of reconciling "their mandate to pursue the political economic interests of their citizenry" with an environment "where large parts of economic governance are no longer exclusively within their control" (308) as capital mobility made most traditional tools of postwar state intervention ineffective.

This analysis complements Clift and Woll's contribution by taking a different angle in terms of its focus and level of analysis. In terms of the focus, Clift and Woll follow Andrew Shonfield (1965) in seeking cross-country variation in the instruments and goals of state intervention. The present work aims instead at identifying the common problems EU member states were faced with when adapting their industrial policy tools to the transition from the Fordist to the Post-Fordist production models. This does not equate to espousing the tautological assertion that the state matters everywhere and in the same way (Alami and Dixon 2020, 78), as variation exists in particular when looking at the outcome of state intervention. It will be shown how this variation is further accelerating the divergence between the German core and the many peripheries of the EU market. This type of approach serves instead the purpose of highlighting that industrial policy has always been a key factor in shaping the many forms of European capitalism.

In terms of the level of analysis, the scope of this inquiry is narrower than that proposed by Clift and Woll. While Clift and Woll remain agnostic as to the precise nature of the *patrie,* which could be the nation state, a supranational institution, or subnational governments (Rosamond 2012), this work focuses on EU member states, studying the way in which their national governments (or other state actors) used industrial policy to carve out niches of competitiveness for their domestic economies. This is because, despite long-standing efforts by the EU to launch Europe-wide industrial policy projects in support of SMEs or high-tech investments (Ahrens and Eckert 2017, 23–26; Medve-Bálint and Šćepanović 2019; Pianta 2014, 290–91), most measures of state intervention are still conducted at member state level (Defraigne 2017; Mertens, Thiemann, and Volberding 2020).

This does not mean to say that the process of European integration plays a marginal role in this analysis. To the contrary, it is precisely the pervasiveness of supranational market integration that makes the European economic space an ideal vantage point to study industrial policy (Scharpf 1999, chap. 2). In fact, the many multilevel overlaps between economic and judicial spaces of competence resulting from market integration alter the patterns of state intervention in a non-univocal matter. While on the one hand the EU competition policy and state aid regimes *constrain* member states in the range of policy instruments they can deploy to support selected sectors or industries (Clift and Woll 2012; Jabko 2006), on the other the opening of formerly protected markets to competition *broadens* the geographical and sectoral scope of state intervention, allowing for the adoption of outward-looking industrial policy strategies (Colli, Díaz-Fuentes, and Piscitello 2014; Di Giulio 2018; Thatcher 2014b).

3 Inward-looking industrial policy: From the postwar period to the demise of Fordism

State actors played a decisive role in the reconstruction of the European economy after the Second World War (Linsi 2020, 866–68; Warlouzet 2017, Introduction). Industrial policy was a key pillar of the economic order underpinned by the Fordist production regime and Keynesian-inspired macroeconomic policies (Buch-Hansen and Wigger 2010, 26). In this phase, state intervention mainly focused on developing a solid manufacturing base in Fordist sectors like steel, car-making, and chemicals, with the attention gradually shifting since the 1970s towards electronics, aircraft, and biotechnology. Another pressing concern for governments was to create reliable infrastructures in sectors crucial for economic development like electricity and telecommunications (Pianta 2014, 277–78).

Industrial policy was inward-looking, as its ultimate *goal* was to protect the domestic economy from foreign interferences while attempting to reduce regional disparities in economic development, foster employment, and ensure the provision of basic services to the entire population (Scharpf 1999, chap. 2). Governments around Europe were open in expressing their concerns about the harmful impact excessive FDI inflows could have on their economies. This mercantilist attitude was widespread in France and Italy, but also in self-proclaimed free trade supporters like Germany and the UK (Linsi 2020, 855–56).

Between the 1950s and 1970s, member states faced limited restrictions on their capacity for economic intervention, as European integration did not affect the co-existence of heterogeneous models of capitalism (Höpner and Schäfer 2010, 349). Membership in the European Coal and Steel Community (ECSC) and later in the European Economic Community (EEC) did not limit the scope for the implementation of activist industrial policies. In fact, despite the pro-competition rhetoric of the Treaty of Rome, very few concrete provisions were included to prevent the formation of dominant positions on the market or the existence of monopolies. In line with the then prevailing Keynesian consensus, EU competition policy was shaped by concerns over employment and public service provision rather than market efficiency, merger control was still decentralized at member state level, and state aid was largely tolerated (Buch-Hansen and Wigger 2010, 29–31).

Behind "semi-permeable economic boundaries" (Scharpf and Schmidt 2000, 25) member states could therefore deploy a wide array of *policy instruments* to strengthen strategic sectors, including state-owned enterprises, credit rationing, long-term planning, legal monopolies, and merger control. Firms, industries, or sectors could be subsidized via state-led circuits of credit as in France and Spain (Pérez 1997; Zysman 1984), state-owned banks as in Italy (Deeg 2005), or private banks providing long-term lending or subsidized export credit lines[1] as in Germany (Höpner and Krempel 2004; Naqvi, Henow, and Chang 2018, 676–77). Voluntary export restraints and other trade measures adopted at the European level protected strategic companies from external competition, while governments made extensive use of public procurement to foster their growth (Pianta 2014, 279).

National champions were the undisputed protagonists of postwar industrial policy. Across Europe, strategic sectors like gas, electricity, railways, banking, and telecommunications were dominated by state-owned monopolists tasked with fulfilling "public service" obligations (Majone 1997, 144; Thatcher 2007, Introduction). Until the emergence of the European competition policy regime in the 1980s (Buch-Hansen and Wigger 2010), member states leveraged their full regulatory authority over domestic mergers to speed up industrial consolidation in strategic sectors (Hall 1986, chap. 6). After the first oil shock and the consequent slowdown of the postwar boom, state intervention was retooled to support declining industries like steel, shipbuilding, and textiles with measures of defensive industrial policy (Warlouzet 2017, chap. 5). In the absence of European rules to regulate state aid, strategic firms received grants and subsidized loans for a variety of purposes, including R&D investment, unemployment benefits to laid-off workers, and early pension schemes (Germano 2012, 73–74).

In terms of the *protagonists*, the priorities of industrial policy in the postwar era were still largely defined by the central government. Although managers of state-owned companies and planning bureaucrats could enjoy a certain degree of autonomy in implementing day-to-day market interventions (Barca 2010, chap. 1; Hall 1986, chap. 6 and 7), there was widespread agreement on the fact that governments should have a

1 The inclusion of subsidized export credit lines under the banner of inward-looking industrial policy might appear puzzling, as these are clearly export-promotion measures. However, inward-looking measures should not be interpreted as univocally focused on the development of the sheltered segment of the economy. To the contrary, export promotion was already an important concern of state actors across Europe, particularly in Germany (Höpner 2019). But export competitiveness was a means to attain the ultimate goal of protecting strategic industries from foreign intrusions and strengthening domestic sovereignty. With the shift towards open-market industrial policy, state intervention instead becomes mainly concerned with opening domestic firms, sectors, or regions to international competition. A further difference between these early measures of export promotion and later efforts is that, in the postwar period, EU member states could freely deploy direct instruments like subsidized export credit lines or voluntary export restraints. Since such measures were later prohibited under the EU legal order, export promotion needs now to be achieved through indirect policy instruments, such as internal devaluation or the concession of corporate benefits to large export-oriented companies.

say in defining long-term industrial priorities, and most executives around Europe had a Ministry devoted to the administration of state-owned companies. Germany was the main exception to this general trend, as the Federal government was willing to mark a distance both with the Nazi past and with the planned economy of the GDR (Trouille 2007, 511). This does not mean that the German state did not have an industrial policy, but rather that industrial policy was done *sotto voce* and delegated to subnational governments or technocratic institutions like the development bank Kreditanstalt für Wiederaufbau (KfW) (Warlouzet 2017, 104–5).

The crisis of the Fordist wage-led production regime since the mid-1970s triggered a series of interrelated events that ultimately sanctioned the demise of postwar industrial policy. The abandonment of Keynesian macroeconomic management in favor of inflation targeting by independent central banks and the parallel institutionalization of fiscal austerity reduced the scope for the implementation of activist measures in support of the economy. The anti-*dirigiste* turn (Clift 2013, 110) taken by the process of European integration with the *Cassis de Dijon* ruling further accelerated this dynamic, paving the way for the adoption of the Single European Act (SEA) and the single market project (Scharpf 1999, chap. 2; Höpner and Schäfer 2010, 349–51; Bohle 2018, 241). Two of the central planks of the single market project proved fundamentally incompatible with the forms of state activism practiced in the postwar period: the liberalization of capital flows and the opening to competition of formerly protected public service industries.

On the one hand, the interconnection of formerly protected capital markets shifted the balance between labor and capital in favor of the latter, making the pursuit of inward-looking investment strategies untenable (Scharpf and Schmidt 2000, chap. 2). The consequent proliferation of cross-border capital inflows put member states in direct competition with each other for attracting FDI from large corporations (Reurink and Garcia-Bernardo 2020). To avoid capital flight, member states had to curb state aid, reduce corporate taxation, abandon explicit credit rationing, and deregulate strategic sectors.

Monetary integration amplified the impact of these dynamics, as the Maastricht convergence criteria forced eurozone member states to bring public debt and deficit levels under control, while the adoption of a single currency among countries with different growth patterns strengthened capital volatility. In parallel, from the 1990s the Commission started advocating for the demise of vertical industrial policy in favor of horizontal light-touch measures aimed at ensuring favorable investment conditions without necessarily targeting specific firms or sectors (Defraigne 2017, 219; Trouille 2007, 506).

On the other hand, the liberalization of "hitherto protected, highly regulated and often state-owned *service-public* industries and infrastructure functions, including financial services, air, road and rail transport, telecommunications and energy" (Scharpf 2002, 647) limited the scope for the pampering of national champions. The strengthening of the EU competition policy framework curtailed the power of member states to regulate domestic mergers, and more generally to selectively discriminate in favor of domestic production (Buch-Hansen and Wigger 2010; Majone 1997; Billows, Kohl, and Tarissan, forthcoming). As a consequence, EU countries had to find new ways to conduct "off balance sheet" (Mertens and Thiemann 2018, 189) outward-looking forms of state intervention.

4 Open-market industrial policy and its main features

The demise of postwar industrial policy did not mean that state intervention ceased to be an important engine of growth altogether. Rather than relegating industrial policy to the dustbin of history, the wave of liberalization, market integration, and privatization of the 1980s and 1990s triggered a reorientation of state intervention with the emergence of new *protagonists* and the deployment of new *policy instruments* (Table 1). The *goal* of state intervention shifted from sheltering domestic markets from foreign competition to strengthening the international competitiveness of domestic firms, industries, sectors, and regions.

Due to growing budgetary constraints, member states had to find fiscally neutral *policy instruments* to support their economy. For instance, tax policy has become a key tool for mid-range interventions aimed at favoring specific sectors, industries, or firms on account of its less evident fiscal repercussions (Haffert 2019). Fiscal constraints also pushed state actors to intervene in the market through the deployment of financialized products like public-private partnerships, derivatives, and leveraged instruments (Lagna 2016; Nölke 2014, Introduction). In terms of the specific state actors engaging in economic intervention, industrial policy underwent in this phase a double process of decentralization and technocratization, with a relative decline in the importance of central government counterbalanced by a growing activism among subnational authorities and unelected specialized agencies.

The remainder of this section describes in more detail the main features of this second generation of industrial policy by focusing on two patterns of state intervention that emerged as a result of the integration of capital markets and the opening to competition of public service sectors: the internationalization of formerly protected national champions and the emergence of FDI-dependent industrial clusters. These two forms of state intervention were chosen because of two features they share: the defining impact they have on European economies and the fact that their emergence was a direct consequence of the deepening of the process of economic integration.

Table 1 The evolution of industrial policy since the postwar period

Type of State Intervention	Timeframe	Logic of Intervention	Protagonists	Policy Instruments	Constraints
Inward-looking industrial policy	1950s–1970s	Shield domestic companies, industries, and sectors from foreign markets Support employment Reduce regional disparities Improve infrastructures Provide basic services	Central governments Elected officials State bureaucrats Public managers	State-owned enterprises active in public service sectors Legal monopolies Procurements Merger control powers State-subsidized credit provision Voluntary export restraints Long-term planning	Limited budgetary constraints Limited impact of EU legislation
Open-market industrial policy	Since late 1970s	Carve out niches of international competitiveness for domestic firms, industries, sectors, urban areas, and regions Create employment Foster growth	Specialized unelected investment agencies National development banks Regional and local authorities Central governments	Partially state-owned and highly internationalized private-law companies Economic diplomacy Selective market opening Residual merger control powers R&D grants Market-based financing Financialized products	Severe budgetary constraints EU state aid restrictions EU merger control framework

The commanding heights of the economy: From nurturing domestic champions to creating global firms

Sectors like electricity, telecommunications, gas, banking, and air transport make up a large chunk of the European economy. Formerly populated by inefficient inward-looking lame ducks, they are now home to many of the largest and most dynamic EU multinationals. The emergence of global leaders like Deutsche Telekom, Telefonica, EDF, ENEL, BNP Paribas, or Banco Santander is a direct consequence of the progressive opening to competition of service industries that has been taking place since the mid-1980s on the initiative of the European Commission (S. K. Schmidt 1998). The liberalization of entry regulation and the consequent cross-border integration of the EU market meant that the most efficient national champions could expand abroad, taking over foreign competitors (Clifton, Díaz-Fuentes, and Revuelta 2010; Colli, Mariotti, and Piscitello 2014; Hayward 1995).

While until the 1980s national security and public service obligations were the major imperative for state-owned monopolists, today's service multinationals have shifted their focus towards profitability (Beyer and Höpner 2003, 186–90; Hayward 1995, Introduction). However, this also means that the national champions which failed to adapt to the new regulatory environment were taken over by foreign competitors. Large and economically powerful member states deployed a wide array of *policy instruments* to make sure their domestic firms would emerge victorious from this wave of consolidation. In this sense, the integration of formerly protected industries paved the way for a process of cross-border consolidation, with a handful of winners and many losers.

The Commission supported market integration as a way to realize its long-term ambition to have European champions capable of competing on an equal footing against American and Japanese service multinationals (Clifton, Díaz-Fuentes, and Revuelta 2010, 988–90; Shonfield 1965, 376; Thatcher 2014a, 443–48).[2] State intervention was also favored by the fact that market opening is not a one-off event, but rather the result of a gradual process that granted member states a relatively ample window of opportunity to support domestic firms (Bulfone 2020; Di Giulio 2018).

The gradual pace of market integration meant that member states could shape domestic liberalization so as to favor home-based incumbents (Colli, Mariotti, and Piscitello 2014; Thatcher 2014b). Market liberalization itself became an instrument of industrial

2 Under the EU merger control framework established in 1989, the European Commission has regulatory power over mergers and concentrations "with a Community dimension." A quantitative review of the decision taken by the European Commission in banking, telecommunications, and energy corroborates the idea that the Commission follows an integrationist logic, supporting the cross-border integration of strategic firms as a way to favor the emergence of European champions (Thatcher 2014b). However, this evidence is partially contradicted by a recent analysis pointing to a much more competition-driven approach by the Commission (Billows, Kohl, and Tarissan, forthcoming).

policy. On the one hand, state authorities could use selective market opening to push domestic incumbents and their management to seek investment opportunities abroad. This is the case for instance in the energy sector, where governments forced former monopolists to shed part of their productive capacity to make space for new market entrants (Bergami, Celli, and Soda 2012, 31–36).

On the other, liberalization was not pushed to the extreme, as state authorities delayed the dismantling of some protectionist measures to make sure that incumbents retained an important advantage vis-à-vis new entrants even after market opening (Clifton, Díaz-Fuentes, and Revuelta 2010, 1002–03). For instance, banks and telecommunications companies were automatically granted licenses to operate on the domestic market, while their competitors had to participate in onerous auctions to acquire them (Epstein 2014, 778). This need to strike a difficult balance between market opening and incumbent protection created tensions between the management of domestic companies and the newly established independent regulatory authorities eager to speed up market liberalization. In their role as arbiter, governments would typically side with the former.

Despite the fact that public service providers went from being departmental agencies incorporated within the public administration to private-law companies, direct state ownership did not disappear (Schmitt 2013, 552). Many electricity, telecommunications, railways, and air transport companies across Europe still have the state as the largest shareholder today (Holzinger and Schmidt 2015). Even in cases in which direct ownership is limited to a small participation, governments can retain a firm grasp over strategic firms via control-enhancing measures like dual voting shares, poison pills, or voting caps (Hayward 1995, 351).

When firms are fully private, the state can exert indirect forms of control over their shareholders. This can be done by leveraging the state's regulatory power over private investors – as the Spanish state did on many occasions with Telefonica's banking shareholders – or through informal agreements (Bulfone 2019, 763–65; Colli, Mariotti, and Piscitello 2014, 502–3). Golden share powers, another source of indirect ownership control over strategic firms, have instead been progressively abandoned due to a series of unfavorable rulings from the European Court of Justice. Since the early 2000s, France, Germany, and Italy have transferred the direct ownership of strategic firms to state companies such as national development banks (NDBs). This enabled them to use the proceeds from the sell-offs to shore up public finances while maintaining indirect control over the firms. The British, Italian, French, and German governments as well created sovereign wealth funds linked to their NDBs and tasked with providing equity investment to strategic firms facing the threat of a foreign takeover (Mertens, Thiemann, and Volberding 2020, Introduction; Thatcher 2014b, 18).

Although the evidence concerning the relationship between state ownership and successful internationalization is inconclusive (Mariotti and Marzano 2019), most of the fastest-growing companies in sectors like electricity and telecommunications are still partially state-owned. Direct state ownership, or more rarely the provision of patient capital by private investors loyal to the state (Deeg, Hardie, and Maxfield 2016; Thatcher and Vlandas 2016), helps to shield strategic firms from the vagaries of the market, allowing the management to implement long-term investment plans (Bulfone 2020, 105–6; Nölke 2014, 189). In other words, in order to successfully complete the transition from sheltered monopolist part of the public administration to private-law company operating on the open market, the management of public service companies needs to rely on the protection of long-term investors that are ready to shoulder the unavoidable short-term losses deriving from the process of internal restructuring.

Along with direct share ownership, state actors retained, and actively used, another policy instrument inherited from the previous era of industrial policy: their (residual) regulatory power over domestic mergers. For instance, throughout the 1990s the German and Spanish authorities favored a process of sheltered consolidation among regional electricity companies that was aimed at favoring the emergence of two large competitors per country (Colli, Mariotti, and Piscitello 2014, 500–2; Mariotti and Marzano 2019, 677–78). A similar dynamic of sheltered consolidation occurred across the entire EU in the banking sector (Goyer and Valdivielso del Real 2014; Pérez 1997). Merger control powers could also be used defensively to block or slow down the foreign acquisition of strategic companies, although this could ignite a legal confrontation with the Commission (Thatcher 2014b).

The growing foreign activism of incumbents made economic diplomacy a central tool of state intervention. Economic diplomacy is particularly important in network industries and other service sectors characterized by high sunk costs, as foreign acquisitions are the preferred form of internationalization. Cross-border takeover battles involving iconic national champions are likely to spark outraged reactions from the public, forcing the central government to take a position on the issue. In this context, the negotiating skills of elected officials and diplomats might prove decisive in determining the successful outcome of a foreign takeover (Colli, Mariotti, and Piscitello 2014, 492–93; Prontera 2018, 516–20). While high-profile takeovers will be dealt with directly by central governments on a bilateral basis (Chari 2015; Prontera 2018), other state actors can engage in diplomatic efforts to support strategic firms before the Commission or the European Court of Justice (Fioretos 2011).

Compared to the Fordist era, from the 1980s national champions had to seek new forms of financing. The separate circuits of credit allocation used to channel subsidized financing towards strategic companies or industries were dismantled (Deeg and Perez 2000, 136–41), while the liberalization of banking meant that state-owned banks were privatized and forced to operate at market conditions. NDBs partially filled this financing gap by stepping up their export-credit capacity, but they were restricted in their activity by the obligation to abide by state aid regulations. Consequently, strategic firms were encouraged to embrace market-based financing strategies such as multiple listings (Clifton, Comín, and Díaz-Fuentes 2011, 771–73).

Successful internationalization of the strongest public service companies was conditional on the availability of open markets for investment. Service firms from large member states generally found two investment outlets for their foreign venues: small *old* member states that shared strong economic and cultural ties with a larger neighbor; and *new* member states from the Central and Eastern periphery. During the accession process, Central and Eastern European countries allowed the foreign colonization of profitable public service markets including energy, telecommunications, and banking. Taking banking as an example, in 2004 the average rate of foreign ownership of branches and subsidiaries in the euro area was 15.5 percent compared to well over 70 percent in the Eastern periphery (Nölke and Vliegenthart 2009, 680). This dynamic was favored by the fact that EU authorities forced new member states to prioritize the creation of a favorable legal and judicial environment for foreign investors over the support of domestic firms (Bruszt and Vukov 2017, 672). In other words, the promotion of horizontal market-friendly industrial policy in the East created the ideal conditions for the success of the vertical industrial policy interventions in support of national champions practiced in core member states.

The opening of formerly protected sectors to competition led to the concentration of corporate control in a few large countries, with France and Germany leading the way and followed at a distance by Spain and Italy (Chapman 2003, 321–22; Colli, Mariotti, and Piscitello 2014). This trend is confirmed by the fact that the acquisition of European competitors is by far the most frequent form of internationalization for German and French state-owned companies (Babic, Garcia-Bernardo, and Heemskerk 2020, 451–55). Two factors seem to play a role in explaining this success: the size of the domestic market and the backing of financially solid sovereigns that were, as a consequence, under less severe pressure to privatize profitable companies. Scandinavian countries could also punch above their weight by leveraging their ample financial resources and the early market integration of public service sectors in the region.

The UK is often portrayed as an outlier in studies of the internationalization of service companies. In fact, in the 1980s, British state authorities prioritized market opening over the protection of electricity and telecommunications companies, leading domestic incumbents to underperform vis-à-vis their European peers (Clifton, Comín, and Díaz-Fuentes 2011, 773–76; Colli, Mariotti, and Piscitello 2014, 498–500). However, this does not hold true across sectors, as the British government engaged in an activist industrial policy effort to favor the internationalization of domestic banking champions (Macartney 2014; Silverwood and Woodward 2018).

FDI attraction and the emergence of industrial clusters

According to Michael E. Porter's (Porter 1998, 78) definition, clusters "are geographic concentrations of interconnected companies and institutions in a particular field";

along with private actors they include "governmental and other institutions – such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations." Inspired by the works of Porter and other management scholars, state actors shifted their priority from sheltering the domestic economy from foreign predators to making it attractive for foreign investors interested in establishing industrial clusters. As a result, FDI went from being portrayed as a threat to economic development to a crucial ingredient for economic success (Linsi 2020). This form of cluster policy bears a resemblance to the strategic and selective use of inward and outward FDI flows practiced by rising economies like China and Brazil (Nölke 2014, Introduction).

The lifting of capital controls and other investment restrictions has led since the 1990s to an exponential increase in FDI inflows among advanced economies. Between 1990 and 2013 the value of FDI went from about 20 percent to over 120 per cent of GDP (Iversen and Soskice 2019, 147). While in some instances investment banks and venture capital funds acted as intermediators channeling investment towards service and manufacturing clusters, in other cases FDI came directly from multinational enterprises seeking cutting-edge research facilities, skilled workers, or lower labor costs (Iversen and Soskice 2019, Introduction).

While benefitting from a favorable tax regime is undoubtedly a priority for foreign investors, investment decisions are not solely driven by fiscal considerations (Brazys and Regan 2017; Reurink and Garcia-Bernardo 2020). The ideal mix of incentives for FDI attraction depends on the sector of activity, or corporate function, a country is willing to attract. High-tech companies or venture capitalists focusing on prime investment will prioritize the presence of a qualified labor force, possibly organized in cooperative trade unions accustomed to centralized bargaining, combined with a thick institutional network of universities, government agencies, and research centers (Iversen and Soskice 2019, Introduction).

Winning and retaining comparative advantage in FDI attraction requires an effort of re-regulation, institution building, and economic diplomacy led by state actors, be they regional governments, city councils, unelected investment agencies, or NDBs. Hence, like in the case of national champions, industrial clusters are not the result of state retreat, deregulation, and cut-throat tax competition, but of constant state involvement to fend off competition from other potential destinations as well as to react to the structural changes affecting strategic industries.

State aid still plays an important role in cluster policy. While in the postwar era a large share of support was directed to declining industries, the bulk of financing now goes to R&D and start-ups in high-tech sectors. State aid is often accompanied by other incentives that are fiscally neutral in the short term, such as tax exemptions and the flexibilization of labor conditions (Bohle and Regan 2019). Often, clusters develop around a large national champion that acts as anchor firm catalyzing industrial investment from smaller companies (Wade 2012, 230). Leveraging their close connections with the government, anchor firms constantly coordinate with state actors in shaping the patterns of state intervention. Anchor firms typically operate in the same sector in which the cluster emerged, or in a closely connected industry (Ornston 2013, 716–23). Large public service companies are also involved in clustering dynamics as they typically provide financial support and other services to foreign investors.

Industrial clusters depend on the creation of a long-term relationship between foreign investors, domestic firms, and local authorities. This is particularly true when state actors seek to attract large multinationals with a global reach that can choose between multiple investment destinations. Hence, clustering policy often takes the form of vertical bilateral interactions between state actors and foreign companies (Brazys and Regan 2017, 415–17). Given the need to create long-term relationships with prospective investors, clustering policy is often left in the hands of specialized unelected investment agencies (Bohle and Regan 2019; Linsi 2020, 869–72; Wade 2012, 230). Compared to elected officials, specialized agencies have less frequent turnover in their personnel and can therefore combine superior technical expertise in tailoring industrial policy measures with close personal connections with prospective investors (Bohle 2018; Brazys and Regan 2017; Ornston 2014; Parker and Tamaschke 2005).

The geographical distribution of industrial clusters seems to mirror the developments in terms of national champions' internationalization, with large economies underperforming vis-à-vis smaller member states (Reurink and Garcia-Bernardo 2020). Smaller markets are an asset in this case, as they allow for more leverage in the use of taxation for industrial policy purposes and facilitate the coordination between state actors and private companies. Historical legacies also play a role, since, given their size, the small economies of Northern Europe had to find a way to cope with foreign investors earlier than their larger counterparts (Katzenstein 1985).

The same goes for Central and Eastern European countries that were encouraged by the Commission during the process of EU accession to create a favorable business environment instead of supporting declining sectors or inward-looking companies (Bruszt and Vukov 2017, 669–73; Vukov 2019). Industrial clusters are very heterogeneous in their structures. The Nordics provide prominent examples of indigenous high-tech clustering focused on mobile communication (Finland), software development (Sweden), and biotechnology (Denmark) (Ornston 2013).

Ireland developed another variant of high-tech clustering based on the attraction of FDI from large US-based high-tech multinationals (MNEs). In the Central and Eastern periphery, the Visegrád countries were particularly successful in attracting FDI from (predominantly German) MNEs producing medium-quality goods like cars, car components, machinery, electronics, and electrical products. They did so relying on important comparative advantages including the geographical proximity with the German market, historical ties with the German production system, and a relatively cheap, well-qualified, and docile labor force (Bohle and Regan 2019; Nölke and Vliegenthart

2009, 674–79). The Iberian Peninsula, and more recently Romania and Bulgaria, also emerged as an important production platform for German, French, and Japanese carmakers (Reurink and Garcia-Bernardo 2020; Šćepanović 2019). Peripheral regions in core economies can also opt for FDI-dependent clustering as a development strategy. The most discussed case in this regard is that of the former GDR *Land* of Saxony, where the local government engaged in an effort of investment attraction targeting small and large companies active in biotechnology, nanotechnology, new materials, and microelectronics (Broll and Roldán-Ponce 2011).

5 Industrial policy after the Great Recession: Return of the state or rhetorical shift?

This paper argues that the decline of the Fordist wage-led production system, not the Great Recession, marked the real turning point in the evolution of industrial policy in the EU. While the Great Recession prompted the state to step up its activism in support of the economy, there are evident signs of continuity with the precrisis period in terms of the protagonists, goals, instruments, and content of industrial policy. In other words, the Great Recession did not lead to a return of the state, but rather to a strengthening of existing patterns of intervention. This continuity is evident when assessing the logic behind four postcrisis instances of state intervention routinely portrayed as signs of a "return of the state" (Buigues and Cohen 2020, 276): the clash between the Commission and large member states over competition policy, the attempted merger between the two large German lenders Deutsche Bank and Commerzbank, the growing activism of NDBs in support of the European economy, and the shift towards a (selective) nativist industrial policy in the Central and Eastern periphery.

In 2019 the Commissioner for Competition, Margrethe Vestager, vetoed a merger between the transport equipment and service activities of Siemens and Alstom, having judged the remedies offered by the merging companies inadequate (Commission 2019). In supporting the deal, the French and the German governments argued that it would lead to the creation of a global train maker capable of competing on an equal footing with the state-backed Chinese producer CRRC (Financial Times 2019b). However, the Commission dismissed this argument on the grounds that the growing industrial concentration resulting from the merger poses a more concrete threat to European consumers than CRRC.

This prompted a harsh reaction from Paris and Berlin, culminating in the signing of a joint manifesto for a new industrial policy for the twenty-first century. The manifesto puts forward two requests aimed at making the merger control framework more conducive to the creation of globally competitive European champions. First, updating the current merger assessment guidelines to consider competition at the global rather than the European level. Second, giving the Council the possibility to appeal and override decisions taken by the Commission under the merger control framework (German Federal Ministry for Economic Affairs and Energy and French Ministry for the Economy and Finance 2019).

The strategy of the French and German governments is clearly in line with the national champions policy of the precrisis period, as they used economic diplomacy to defend the interests of their domestic companies vis-à-vis the Commission and other member states. In fact, Berlin and Paris have been advocating for the launch of an explicit European champions policy since well before the crisis (Clift 2013). As in the past, behind the reference to European champions is the idea of having French and German "national champions" in Europe (Trouille 2007, 514–15). Therefore, it comes as no surprise that smaller member states backed Verstager's position as a way to defend their own domestic firms from foreign takeovers (Politico 2019). The use of an external threat to legitimize the support for European champions is another sign of continuity with the past. While in the 1980s and 1990s the alleged challenge came from the Japanese and US giants (Buch-Hansen and Wigger 2010; Defraigne 2017; Hayward 1995), nowadays the external threat is epitomized by Chinese state-backed mega firms (Aiginger and Rodrik 2020, 190). In 2019 Verstager signaled that she shares this concern by backing a Dutch proposal to give the Commission the power to veto acquisitions of EU firms by state-backed foreign competitors (Financial Times 2019a).

In 2019 the German Federal government tried as well to promote a merger between the two largest domestic banks, Deutsche Bank and Commerzbank. Both lenders were severely affected by the subprime meltdown, which led to a partial nationalization of Commerzbank (Goyer and Valdivielso del Real 2014). Given this weakness, the executive saw the merger as a way to give Germany a global banking champion while at the same time sheltering both banks from foreign takeovers (Financial Times 2019c). Even though the deal derailed due to resistance from both private shareholders and the Bundesbank, the attempt clearly shows how, very much like in the early 2000s, the German government is willing to promote a process of sheltered consolidation among domestic firms to prevent the foreign colonization of a strategic sector (Colli, Mariotti, and Piscitello 2014, 500–502).

In 2019 the executive launched an ambitious industrial policy plan labeled *National Industrial Strategy 2030*. The plan called for the creation of a state-backed fund to provide equity investment to strategic companies facing the threat of a foreign takeover (Bundesministerium für Wirtschaft und Energie 2019). Similar funds had been established in France and Italy in the early 2000s. The coronavirus pandemic further strengthened these protectionist attitudes, with the Federal government tightening the rules on foreign takeovers of companies active in strategic sectors such as tech and robotics (Bloomberg 2020).

Perhaps the most evident sign of state activism over the last decade has been the rise to prominence of NDBs. All across Europe, NDBs adopted measures of countercyclical support to the economy, such as providing credit and equity investment to SMEs and strategic companies, and financing infrastructural networks (Mertens, Thiemann, and Volberding 2020, Introduction). This growing activism is epitomized by the remarkable growth in assets of the three main players KfW, the French CDC, and the Italian CDP, the mushrooming of new NDBs in countries historically lacking them, and the growing synergies established between NDBs, the European Investment Bank, and the Commission (Mertens and Thiemann 2019). However, even in this case the crisis further accelerated a dynamic dating back to the early 1980s, when EU governments started turning to their NDBs as conduits for activist state intervention (Volberding 2016, 1).

NDBs share two important features that make them ideal instruments for carrying out open-market industrial policy operations compatible with the EU regulatory framework. First, after their transformation into private-law companies they are excluded from public debt calculation, thereby allowing for "off balance sheet" state interventions (Mertens and Thiemann 2018, 186). Second, as long as they abide by market principles they are exempted from state aid restrictions. Hence, like many other instruments of open-market industrial policy, NDBs allow member states to pursue national economic goals without violating EU regulations (Volberding 2016). The growing activism of NDBs further accelerates the trend towards the financialization of industrial policy already evident since the 1980s, as for their operations they routinely tap into market-based sources of financing, including leverage, securitized products, fund-of-funds investment, synthetic transactions, and venture capital funds (Mertens, Thiemann, and Volberding 2020, Introduction).

The most apparent discontinuity compared to the precrisis period is represented by the spread in Hungary and Poland of an activist, and nativist, industrial policy. During the accession negotiations these countries had to allow foreign acquisitions in sectors like energy, telecommunications, and banking. However, the severe recession and deep current account imbalances hitting the region as a result of the Great Recession led to a critical reassessment of a model shaped around volatile FDI inflows (Bohle and Greskovits 2018, 1084–88; Naczyk 2014).

In Hungary, Viktor Orban used sectoral taxes and renationalization to increase the share of domestic ownership in public service sectors like telecommunications, banking, and electricity. However, this protectionist attitude was not extended to manufacturing sectors such as automobile, pharmaceuticals, and chemicals. In the latter case, the government confirmed its long-term commitment to FDI attraction by designing generous aid packages based on cash grants and tax incentives. According to Bohle and Greskovits, "the rise of economic nationalism … prioritises 'good', manufacturing, business service, and export-oriented FDI over 'bad', speculative, financial, or monopolistic FDI" (Bohle and Greskovits 2019, 1079).

Rather than a radical break with the past, this attitude, shared also by the conservative government in Poland, represents an extension to the Eastern periphery of the open-market industrial policy practiced by old member states. On the one hand, Hungary and Poland did not call into question the cluster policy that had allowed both countries to emerge as important production bases for German MNEs. On the other, this protectionist attitude towards public service companies is reminiscent of the national champions policies practiced in "old" member states. Similarities are evident also in the policy instruments deployed to support strategic companies. For instance, both governments engaged in activist efforts of economic diplomacy aimed at favoring the expansion of domestic firms in the Asian market. Furthermore, they protected strategic sectors and companies by establishing control-enhancing ownership mechanisms and promoting waves of sheltered consolidation (Naczyk 2014).

6 Conclusion

This paper has reviewed the evolution of industrial policy in the EU since the postwar period, showing how the transition from the Fordist to the Post-Fordist model of production marked a watershed moment for the logic of state intervention in the economy. The inward-looking industrial policy of the postwar period was replaced by open-market interventions aimed at carving out a niche in the global economy for domestic firms, industries, or geographical areas. Rather than altering this logic of open-market intervention, the Great Recession further strengthened existing tendencies towards a technocratization and financialization of industrial policy. These findings open up at least three pathways for future research aimed at better integrating industrial policy within current debates on the political economy of European integration.

First, state intervention seems to reinforce patterns of unequal economic development among member states. In fact, both the internationalization of service companies and the emergence of industrial clusters led to a concentration of corporate power in Germany and in Nordic countries. The opening of formerly protected sectors to competition favored incumbents from large member states like Germany, France, and, albeit to a minor extent, Italy, Spain, and the Scandinavian countries (Chapman 2003, 321–22; Colli, Mariotti, and Piscitello 2014). The regionalization of manufacturing production created a center dominated by German producers and a ring of surrounding countries in the Central, Eastern, and Iberian peripheries acting as production bases (Pianta, Lucchese, and Nascia 2019). Former manufacturing centers like France or Italy, lacking either the quality production to compete with German companies or the cost-competitiveness to join German production chains as suppliers, witnessed an erosion of their manufacturing base. Similarly, the most successful high-tech and financial clusters emerged in wealthy Nordic countries, while peripheral countries had to focus their efforts on the attraction of less profitable investment in lower value-added sectors or cross-sectoral corporate functions (e.g., manufacturing activities, R&D, or back-office services) (Reurink and Garcia-Bernardo 2020). This finding aligns with existing political economy analyses observing the difficult coexistence of different models of capitalism in the eurozone and the EU more generally (Bohle 2018; Johnston and Regan 2018; Nölke 2016; Perez and Matsaganis 2018), calling for a more careful assessment of the role state actors play in exacerbating or reducing these cross-national disparities.

Second, while this paper identifies the internationalization of national champions and the mushrooming of industrial clusters as two key instances of open-market industrial policy, the relationship between the two is still understudied. This is an important shortcoming given the role national champions often play in catalyzing investments in industrial clusters.

Third, and finally, the analysis provided here calls for an integration of industrial policy in the growth model debate (Baccaro and Pontusson 2016; 2019). Despite having the merit of refocusing the study of comparative capitalism on the demand side of the economy, the growth model literature has so far remained silent regarding the role state actors (elected governments, specialized agencies, or national development banks) play in favoring the emergence, strengthening, and stability of growth regimes. A theorization of the role industrial policy plays in the emergence of a new growth regime could help to integrate demand-side intuitions with a supply-side analysis of the pivotal industrial sectors underpinning a growth model.

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