

DOI: 10.37930/2782-6465-2024-3-1-26-33

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IS THERE A RETURN OF INDUSTRIAL POLICY WITHIN MAINSTREAM ECONOMICS?¹

Abstract: This paper argues that Mainstream Economics (both Neoclassical and Keynesian) have a myopic understanding of Industrial Policy. This derives from their class perspective (supporting the interests of the capitalist class) and their correlated lack of a political-economic understanding of economic relations and policies. Thus, they oscillate between warm embracement to utter rejection of industrial policy, as the latter is rightfully considered the most interventionist of the economic policies. In this sense, during the era of Neoliberal dominance industrial policy was castigated as inefficient and useless. Since the beginning of the 21st century and as the failure of Neoliberalism became obvious, the novel orthodoxy of New Keynesianism moves towards a return of industrial policy. However, this is a limited return. In contrast to mainstream myopias, Marxist Political Economy offers a robust understanding of industrial policy based on its superior class-based and value-theoretic analytical toolbox.

Keywords: economics, political economy, neoliberalism, industrial policy.

For citation: Mavroudeas S. (2024). Is There a Return of Industrial Policy Within Mainstream Economics? *Noonomy and Noosociety. Almanac of Scientific Works of the S.Y. Witte INID*, Vol. 3, No. 1, pp. 26–33. DOI: 10.37930/2782-6465-2024-3-1-26-33

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主流经济理论是否在回归产业政策?

摘要: 文章认为, 主流经济理论(新古典主义和凯恩斯主义)的代表人物对产业政策的理解有限。这源于他们的阶级观点(支持资本家的利益), 以及缺乏对经济关系和政策的政治经济学层面的理解。因此, 他们对产业政策的立场在完全肯定和完全否定之间摇摆不定。这是因为产业政策被认为是最具干预性的经济政策, 且这种观点有充分的依据。从这个意义上说, 在新自由主义观点占主导地位的时代, 产业政策遭到了批评, 被认为是无益的无效的。自21世纪初, 新自由主义的失败已很明显, 此时, 占主导地位的新凯恩斯主义开始回归产业政策。然而, 这种回归是有局限性的。与只谈局限性的观点不同, 马克思主义政治经济学借助其优秀的阶级和价值理论分析工具对产业政策进行了深度剖析。

关键词: 经济学、政治经济学、新自由主义、产业政策。

¹ The paper is based on the report at the 36th session of the S.Y. Witte Institute for New Industrial Development (INID) International Theoretical Seminar "Global Socio-Economic and Geopolitical Transformations: Theory and Practices" (5 April 2024, Saint Petersburg)

引用注释:马夫罗迪亚斯 S.(2024)主流经济理论是否在回归产业政策? //智慧经济与智慧社会. 维捷新兴工业发展研究所论文选, Vol. 3, No. 1, 26–33. DOI: 10.37930/2782-6465-2024-3-1-26-33

Industrial Policy: A Controversial Concept

Industrial policy is perhaps the most controversial of the economic policies. As Pack and Saggi acknowledge, few issues provoke such strong reactions from economists and policy makers as that of industrial policy [Pack, Saggi, 2006, p. 1].

The very term ‘industrial policy’ covers a wide spectrum of state goals and actions promoting the efficiency, the sustainability and the growth of the economy as a whole. In this vein, one of its main levers is state intervention for the change of the structure of the economy; thus, altering its sectoral mix. What exactly is included in these two axes and whether they are both necessary has been the subject of intense debate. Therefore, disputes and controversies start from its definition and extend to its content and effectiveness. Since the onset of Neoliberalism, the content but also the very existence of Industrial Policy has come under fire.

The debates about the definition: historical and political-economic roots. The historical roots of the debates on the definition focus upon one question: **Is industrial policy only about industry?**

Industrial policy was born in practice (but not yet in name) during the transition from feudalism and post-feudalism to capitalism. A crucial aspect of this transition was the (capitalist) industrialization of the pre-capitalist mainly agricultural economies. State policies (i.e. industrial policies in all but its name) played a critical role in this transformation. Similarly, in the projects to build a socialist economy (most notably those of the Soviet Union and People’s Republic of China) the strengthening of the industrial sector was of paramount importance, as this sector contributed decisively to the creation of the material bases for the socialist transition. This gave rise to a **‘narrow’ definition**: state intervention to industrialize the economy (e.g. Reich, 1982; Johnson, 1984).

Today, a **‘broad’ definition** is more pertinent and popular: industrial policy covers any government intervention that aims to enhance the efficiency of the economy (e.g. Pinder, 1982; Rodrik, 2007). This definition does not limit industrial policy to industry but concerns all sectors of the economy. Modern economies – of any type of socio-economic system – are much more complex than the old ones and this is also reflected in the interconnections between their branches. In particular, the existence of complex production chains (i.e. activities that combine elements of more than one sector) leads to the extension of industrial policy to all sectors of the economy. Of course, regardless of the level of development of an economy (i.e. whether it is more or less developed), the industrial sector always maintains its primary strategic role in the economy and its primary contribution to the creation of economic wealth.

There is a side debate touching upon the previous issue: **is the industrial sector the main growth generator of the economy?** The Heterodox and Marxist views support the qualitative superiority of the industrial sector in the creation of economic wealth. On the contrary, Orthodox views – and especially most of the Neoclassical approach – do not accept this privileged role of the industrial sector.

The Neoclassical approach is characterized, in its majority, by the rejection of the existence of any special role of the industrial sector in the process of growth and development (e.g. Balassa, 1990; Lucas, 1990). This view is based on the Neoclassical assumption of perfect competition. The distributional and economic efficiency of private business plans is far more important than the

prioritization of the industry. Therefore, the market will determine which sector of the economy contributes most to the creation of economic wealth. The industrial sector is not by definition endowed with any superior contribution to the creation of economic wealth. Strengthening the industrial sector – as long as the market does not do it spontaneously and by itself – is a sign of inefficient allocation of productive resources. From the above it follows that the most important thing is not the selective reinforcement of a sector but the implementation of general policies for all the sectors of an economy.

On the contrary, both Keynesianism (e.g. Kaldor, 1957; Kaldor, 1961) as well as Marxist Political Economy (e.g. Tregenna, 2013) argue that the industrial sector has a strategic role in the functioning of the economy and contributes crucially – directly and indirectly – to the creation of economic wealth. This position is based on the following arguments [Kaldor, 1966]. First, the industry contributes more to total output than other sectors. Second, its contribution to employment generation is also stronger than that of other sectors of the economy. The combined effect of these two elements is a superior contribution to the total per capita income of the economy.

This position is more or less unchallenged regarding the initial steps of a country's development. In recent decades, however, it has been argued by some quarters that when an economy is more developed, this crucial role of the industrial sector recedes and is replaced by services (i.e. the tertiary sector). This view mainly reflects the experience of Western economies. It acknowledges that, to a large extent, the tertiarization (i.e. the increase in the role of the tertiary sector) of Western economies has been based on the transfer of industrial activities to non-Western countries by Western multinational corporations. Also, that even in tertiary economies technological innovation and change tends to be concentrated in the industrial sector. This is even more true in the case of complex production chains (i.e. production activities that combine elements of the primary, secondary and tertiary sectors).

The debates about the definition: political economic roots. The political-economic roots of the debates on the definition of industrial policy focus on two issues:

(a) **Is industrial policy an aberration?**

(b) **Should industrial policy be selective or universal?**

Pure Neoliberalism has an outright distaste for industrial policy. As declared by Becker, '*the best industrial policy is its complete absence*' [Becker, 1985]. The reason for the Neoliberal abhorrence is the heavily interventionist nature of industrial policy: in addition to general measures to make the economy work more efficiently, it also includes interventions in the structure of the economy. The latter strengthen specific sectors of the economy over others. Therefore, it deforms inefficiently the market allocation of resources (which is considered efficient by definition).

But the pure Neoliberal concept of absence of industrial policy, despite its ideological dominance, could not face the practical problems of functioning of capitalist economies. Thus, it remained mainly an ideological sermon, as the state apparatuses for managing the economy needed more practically oriented tools to deal with the problems of the economy. The practical failure of Neoliberalism led to the acceptance of industrial policy but at the same time to the modification of its content. Whereas in the past industrial policy was explicitly interventionist, now this interventionism is being moderated. The goal is not for the state to intervene mainly directly and subtly in the economy but, on the contrary, to give incentives to the private sector to move in the indicated directions. That is, compared to the highly active and direct industrial policy of the past, the new industrial policy is much less active and more indirect.

We distinguish two broad categories of industrial policy:

(1) **Horizontal industrial policy** applies general regulations and policies to the entire economy without affecting the balance between individual branches of the economy. This category is usually characterized in the literature as a ‘leveling the field’ policy). That is, it creates the same operating conditions for all businesses and sectors.

(2) **Selective (discretionary or vertical) industrial policy** focuses on specific industries and applies selective (i.e. differentiated) regulations and policies that change the balance between individual sectors of the economy. This category is usually characterized in the literature as a ‘picking winners’ policy). In this case, industrial policy strengthens some industries and ignores and/or abandons others. That is, it creates different operating conditions for businesses and industries.

It is obvious that the second category of industrial policy is objectively more interventionist. In this case, industrial policy seeks to create ‘winners’ (i.e. industries that prevail over others). Also, it may aim to go beyond the existing structure of import and export industries and rearrange it (usually this is called comparative – advantage – defying). That is, it does not follow market options, but seeks to reverse them. Therefore, leading instead of following the market (leading versus following the market).

Neoconservative currents prefer the first category with the argument that it does not distort the free functioning of the market less. That is why from the 1980s onwards horizontal policies were mainly implemented. But, gradually and as the practical impasses of neoconservatism swelled, the gradual return of vertical industrial policy began.

Industrial policy uses various tools. Because industrial policy interventions can address many aspects of the economy, its tools also fall into the realms of other economic policies (such as fiscal, monetary and foreign economic policy). Industrial policy tools are divided into two main categories:

1) **Exclusively public instruments:** These are instruments based solely on the public sector. In this case, it is about the production of products and services that (a) are classified as public goods and (b) there is a direct supply of them (direct provision) from the public sector. These means are not involved – in their pure version – in the market process.

2) Public instruments that incentivize the private sector to produce and/or distribute certain products and services. In this case, it is sought to mobilize the private sector to move in the direction indicated by the industrial policy. These instruments operate **through the market** (market – driven).

In the past, tools of the first type were more important. With the rise of neoconservatism, the main burden of industrial policy shifted to tools of the second type. The classic argument of the neoconservative currents is that media operating through the market intervene more gently in the latter. By definition, they argue that the market is more efficient than the public sector. This view has been criticized that mobilizing the private sector to achieve industrial policy objectives is slower, more expensive and more uncertain than their immediate implementation by the public sector. After the global crisis of 2008, there is a gradual return of the first category means. Especially during the crisis triggered by the COVID -19 pandemic, this return of public media became more intense in the face of the inability of the private sector to cope with the health and economic aspects of this crisis.

The end of Neoliberalism and the advent of New Keynesianism

The advent of the 21st century was characterized by intense economic upheavals but also the aggravation of international geopolitical rivalries and conflicts. In this environment, the failure

of Neoliberal policies and doctrines was felt. Especially with the global crisis of 2008, the latter were hastily abandoned. Gradually, Neoliberalism’s place as economic orthodoxy was occupied by New Keynesianism with the New Macroeconomic Consensus.

This gradual withdrawal of Neoliberalism led to the return of industrial policy. However, New Keynesianism is not a radical break with the Neoliberal past but a juncture within a continuum. It remains within the general neoconservative concepts and could be characterized as a modern version of the current of Social Liberalism. Within this context, the return of industrial policy takes a different form of its pre-Neoliberal one. Whereas in the past industrial policy was explicitly and directly interventionist, now this interventionism is being moderated. The aim is not for the state to intervene mainly directly in the economy but, on the contrary, to give incentives to the private sector to move in the indicated directions. That is, compared to the highly active and direct industrial policy of the past, the new industrial policy is much less active and more indirect. As Naudé observes, even many of the former opponents of industrial policy have moved towards a softer one that is horizontal and less intrusive [Naudé, 2010]. A case in point is the EU. Similarly, the World Bank has moved in favor of an industrial policy that can defy the market but only for a while and not to a large extent [Lin, Chang, 2009].

Based on the above, after the outbreak of the 2008 crisis, interventionist industrial policies were used by most developed economies. Subsequently, the sharpening of international political-economic rivalries strengthened the role and presence of industrial policy. For example, the US with the Trump administration (but also before) systematically implemented an interventionist industrial policy. They proceeded to repeatedly impose tariffs on Chinese imports into the US (with China responding accordingly). Similarly, the EU is discussing the creation of ‘European Champions’ (i.e. large monopolies or oligopolies in strategic sectors of the economy) that can face American and Chinese competition. In March 2019, the European Council called on the European Commission to present a new ‘dynamic industrial policy that enables the EU to remain an industrial power’. In response, the Commission presented a Communication on a ‘New Industrial Strategy for Europe’ in March 2020¹ and an update in the light of the COVID -19 pandemic in May 2018².

An interesting element that emerges from the above is that as imperialist conflicts intensify and deepen, the New Keynesian orthodoxy appears to be moving away from horizontal industrial policy towards more selective and interventionist versions of industrial policy. The COVID-19 pandemic and the economic crisis that accompanied it reinforced this trend.

The following table offers a chronology of the evolution of industrial policy.

Time period	Character of industrial policy	Ideologically dominant stream of economic thought
15th c. – early 20th century	Informal and empirical application of it	Mercantilism, Liberalism & Neoclassicism that violated its principles
Interwar	Formation of the industrial policy and its systematic implementation	Challenging Neoclassicism, establishing Keynesianism
Post-war period until the mid-1980s	Development of the theory of industrial policy and its extensive and systematic application	Keynesianism

¹ COM (2020).102final.https://ec.europa.eu/info/sites/default/files/communication-eu-industrial-strategy-march-2020_en.pdf

² COM (2021). 350final.https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0350& from=EN

Time period	Character of industrial policy	Ideologically dominant stream of economic thought
Mid 1980s to early 21 st century	Rejection of industrial policy and systematic limitation of it	Neoliberalism
From the crisis of 2008 until today	Return of industrial policy	New Keynesianism

The myopic oscillations of Mainstream Economics and the Marxist critique

Mainstream Economics exhibit myopic oscillations regarding economic policy in general and industrial policy in particular. They pass from eras of warm embracement to eras of bitter divorce. In theory, these oscillations prove the deep contradictions and the limited grasp of reality that mar Mainstream Economics. In practice, these oscillations follow the altering priorities of capitalist accumulation and its accompanying imperialist conflicts.

In contrast to the mainstream moving-sand landscape, Marxist Political Economy offers a robust understanding of economic policy in general and industrial policy in particular. The Marxist approach argues that industrial policy is necessary for the proper functioning of the capitalist system. Following its general understanding of the economic role of the state in the capitalist system, Marxist Political Economy emphasizes the role of the state as a 'collective capitalist'. That is, as a body that goes beyond the individual myopic interests of individual capitalists and ensures the long-term and overall interests of the system. In this context, it must ensure capitalist dominance but at the same time – when necessary – make reasonable concessions to the working class in order to ensure the orderly functioning of the system. Therefore, industrial policy – that is, state intervention in the production structure and international competition – mediates the conflict both between capital and labor and between different shares of capital. Of course, industrial policy can alleviate or even modernize the conflict between capital and labor, but it cannot abolish it, because the latter is a structural component of the capitalist system.

The need for industrial policy arises because the Marxist approach rejects the notion of the balanced functioning of the capitalist system and, instead, considers it as a dynamic state of affairs where phases of disequilibrium succeed phases of orderly functioning. This dialectic of balance and imbalance arises primarily from trends in the sphere of production. The 'collective capitalist' intervenes in this dynamic through industrial policy. The central issue of this intervention is the restructuring of *capital*. In its historical course, the capitalist system creates new branches of production and devalues old ones. Both the creation of new industries and the obsolescence of old ones do not simply happen spontaneously through the forces of capitalist competition. On the contrary, because as previously explained the latter is not perfect, that is why state intervention is needed to facilitate and smooth this process.

There are four main reasons for state intervention in the structure and functioning of the economy and competition.

The first reason derives from the operation of the TFPF law: falling profitability can lead to 'investment famine'. This lack of sufficient investment can prevent the creation of new industries (i.e. the restructuring of capital). The latter is usually necessary for the capitalist system to emerge from a structural crisis (i.e. a crisis requiring the radical change of the structure of the economy). Therefore, the state must act strategically and fill the gap left by private capital.

Another important reason is that the uncontrolled functioning of competition can lead to premature, excessive and/or socially unsustainable bankruptcies of businesses and industries. In other words, the spontaneous restructuring of capital by private enterprises may lead to premature or even greater than necessary closure of industries and enterprises. Also, the pace of this privately driven restructuring of capital may touch social limits of endurance and cause uncontrollable social explosions.

A third reason concerns competition with other capitalist economies. Especially in this case, a strategic perspective is needed that can see beyond the existing state of affairs. Private enterprises have a limited perspective and are unable to grasp the overall picture. Also, private capitals often refuse to shoulder the innovation costs that capital restructuring requires. Therefore, in this case too, the state must intervene and implement the necessary changes, while at the same time ‘socializing’ their costs. That is, it covers the necessary expenses from its tax and other revenues to which all social classes contribute. In this way it subsidizes individual capitals.

Finally, an additional reason is that the state must discipline and integrate the working class. It therefore applies state power to industries and enterprises where individual capital is unable to discipline or integrate the working class. Sometimes this intervention is based on discipline through repressive mechanisms and the institutional framework of the state. At other times it may make concessions that individual funds either do not see the feasibility of or refuse to bear the costs of. In the latter case it happens that the issue of innovation was mentioned above. The state covers the concessions to work expenses from its tax and other revenues to which all social classes contribute. In this way it subsidizes individual capitals.

Based on the above framework, the Marxist approach considers that industrial policy is not just a technical undertaking of choosing the best solution for the economy and competition. Rather, it is a political-economic process where social, political and economic factors interact. This interaction is based on class relations and conflicts and the associated position of the economy within the web of competition that pervades the global economy. In short, industrial policy is determined by class struggle and international rivalries.

In particular matters of industrial policy, the Marxist approach pioneered emphasizing the primary role of industry in structural transformation and the creation of economic wealth. Equally pioneering was its understanding of cross-industry interconnections in the economy. In this sense, it preceded the corresponding Structuralist and Kaldorian problematics. It also emphasizes that the primary role of industrial policy is intervention for the restructuring of capital (that is, intervention in the sectoral structure of the economy). Industrial policy is therefore above all selective. The horizontal industrial policy mainly plays a supporting role. Finally, the Marxist approach argues that the labour movement does not have to propose superior ‘technically’ industrial policies. On the contrary, it must support industrial policies that improve the position of labor and reduce its degree of exploitation.

In place of conclusions

Instead of a formal conclusion, I would like to summarize the arguments presented above in a way that I think would be dear to the late Aleksandr Buzgalin whose invaluable loss we commemorate today:

- Industrial policy concerns primarily the production process.
- The production process is essentially the labour process.

- The working class should exert its power on the economy in general and on industrial policy in particular.

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