The Labour Market Potential of a New European Industrial Policy

A panel debate jointly organised by Bertelsmann Stiftung, Madariaga – College of Europe Foundation, and Confrontations Europe

A new European Industrial Policy as proclaimed by the European Commission's Communication from 2010[1] and its most recent Mid-term Review from 2012[2] covers a wide range of issues. This paper, written jointly by Bertelsmann Stiftung, Madariaga – College of Europe Foundation, and Confrontations Europe, does not aim to cover all aspects but strictly focuses on one specific topic: the labour market potential of the Commission's strategy for a new European industrial policy. The purpose of the paper is to frame the panel debate on this issue which will be held as part of the fourth annual Brussels Think Tank Dialogue 2013.

1. New European Industrial Policy – Panacea for Crisis-Ridden Labour Markets?

According to the European **Commission's Industrial Policy Communication** from 2010 and its most recent Mid-Term Review from 2012, the concept of national industries and champions have become obsolete in times of intensifying globalization. In its new approach to industrial policy the Commission argues that the Europeans need a coordinated policy response to tackle current economic challenges. From the Commission's point of view, only better coordination of member states' industrial policies and pooling available resources can make the EU a successful competitive player in the global market and mitigate internal competitiveness gaps between its member states.

The primary objectives addressed by the Commission's industrial policy strategy are **sustainable growth** and **job creation.** Due to a macroeconomic environment which is characterized by tough budgetary constraints both aims seem to be increasingly difficult to

[1] Commission, 'An integrated industrial policy for the globalisation era' (Communication) COM (2010) 614 final. This Communication is one of flagship initiatives of the Europe 2020 Strategy.

[2] Commission, 'A stronger European industry for growth and economic recovery' (Communication) COM (2012) 582/3 final.

achieve. One of the major consequences of the economic and financial crisis in the EU is the **worryingly high unemployment rate**, disproportionally impacting marginalized groups such as newcomers, women and migrants. Against this backdrop the EU's capability to live up to its Europe 2020 target of achieving a 75% employment rate[3] will critically depend on the large-scale retention or transformation of existing jobs.

Actually, the Commission's recent proposals for an integrated European industrial policy exactly point into this direction. At a first glance, they seem to provide kind of a panacea to overcome national labour market problems. Restructuring industrial processes to foster the transition towards a knowledge-based and low-carbon resource-efficient, i.e. "green", economy is considered as a key driver for innovation, productivity, job creation and exports – particularly since this transformation process is also expected to trigger industrial modernisation in Europe's periphery. From a Commission's point of view, such an integrated approach towards industrial policies paying particular attention to the creation and growth of SMEs is key to tapping the full job potential of member states' economies.

At the same time, however, the picture painted by the Commission may be a little too alluring. In particular, there remain three questions in regard to labour market policy which are only insufficiently addressed by the new industrial policy strategy so far: What kind of labour market policies and training opportunities do we need to meet the growing demand for skilled labour resulting from the Commission's current approach towards European industrial policy? What are the net employment effects of the "Third Industrial Revolution" the Commission strives for? Creating new jobs by building a "competitive low carbon economy" in Europe by 2050 will go hand in hand with considerable job losses in traditional sectors of industry and manufacturing. And to what extent are the employment benefits and costs of an integrated industrial policy equally distributed amongst member states and regions in the EU and what does this imply for mobility and migration within the EU?

From our viewpoint, the answers of EU and national policymakers to these three questions will be crucial for the successful implementation of the Commission's new masterplan for a European industrial policy. Accordingly, we try in the second part of this paper to further elaborate on specific political challenges related to these overall questions and to provide in this way a framework for the panel debate we are going to organize at the Brussels Think Tank Dialogue 2013.

2. Reassessing the Job Potential of the Commission's Industrial Policy Strategy

The **great diversity and heterogeneity of industrial structures and labour markets in EU member states considerably contribute to national rivalries**. There are huge differences between member states as regards their industrial performance, their susceptibility to economic transformation and the extent of national government interventions in the market. Moreover, there is an intra-EU divide between member states whose industries are already

[3] One of the targets of the Europe 2020 Strategy is for 75% of 20-64 year olds to be employed.

dominated by technologically advanced firms and highly skilled workforce (DE, DK, FI, SE, AT, FR), and others which are on their move towards more knowledge- and skills-oriented industries but which are still lagging behind as regards their innovation capacities and the transfer of knowledge (BG, RO, PL, CZ, HU). Apparently, the process of economic transformation proposed by the Commission would put a particular burden on the second group of less developed industries.

In addition to this **structural East-West divide**, the current economic and financial crisis has deepened the **core-periphery divide between Northern and Southern eurozone members**. Austerity policies and tightening bank loans have considerably worsened cyclical unemployment in most parts of the eurozone while a very few euro members are flirting with full employment. As long as the EU and especially the eurozone suffer from a macroeconomic environment which tends to widen the intra-European employment gap, the implementation of an integrated European industrial policy seems still a long way off. Actually, this raises the question if completing the Economic and Monetary Union in order to mitigate macroeconomic balances between the member states is a necessary precondition for embarking on the Commission's new industrial policy strategy.

With respect to the **job potential** the Commission expects from a green reindustrialisation of Europe one has to distinguish between

a. the employment effects directly resulting from the sectoral transition towards a "green industry", on the one hand,

b. and the labour market impact resulting from the improvements in global competitiveness Europe could realize in the longer term by greening its industry – due to gains in productivity and resource efficiency –, on the other.

As regards the net employment effects of both aspects they are, however, extremely difficult to predict and to quantify.

The Commission believes that a green reindustrialisation will not provide for a quick fix of the labour market problems member states are currently facing. But even in the longer run it remains highly questionable if the number of new jobs created by a "Third Industrial Revolution" would compensate for or even exceed the job losses resulting from the necessary process of economic transformation. According to several studies which have been published more recently the job potential of a transition into "green economy" is considerably exaggerated.[4] It seems that the labour market potential of the green sector is substantially limited. First, the Commission's approach towards greening Europe's industry would primarily rely on high tech branches, with a focus on the so-called KETs,[5] which create high value jobs rather than mass employment. Second, as regards the expected gains in Europe's global competitiveness by lowering production costs, they depend to a considerable extent on

[4] M. Rogwitz et al. (2009), "EmployRES – The impact of renewable energy policy on economic growth and employment in the EU", final report, project supported by the European Commission, DG Energy and Transport; OECD (2012), "The jobs potential of a shift towards a low-carbon economy", final report for the European Commission, DG Employment.

[5] Key Enabling Technologies.

the question if low-cost countries in other parts of the world, particularly the BRICS, will successfully follow the same road by greening and enhancing the resource-efficiency of their industrial production.

Moreover, the process of transition would imply both high changeover costs and a large reallocation of labour. Indisputably, specific **investment in human capital** will be required. This particularly applies to re-skilling and improving the employability of affected workers. Unfortunately, however, the Commission's strategy neither pays much attention to the question of how to integrate vocational training and lifelong learning programmes into the process of industrial transformation and integration. Nor does it provide any convincing answers to the question to what extend **flexicurity** can facilitate and secure the necessary transitions – and if the Europeans were able at all to bear the costs of large-scale flexicurity programmes aiming to promote the process of industrial transition.

Closely related to this issue is the **shortage of skilled labour** which results from the ever increasing demand for specialists due to technological and industrial changes. Paradoxically, Europe is simultaneously experiencing a situation of over-qualification and mismatch of skills which calls into question **existing wage structures** and re-affirms the importance of **cross-border labour mobility**. The Commission is perfectly right in stressing the urgent need to strengthen and inter-link economic activities around the "Knowledge Triangle" of research, education and business. But how to convince European companies, especially SMEs which are at centre stage of the EU's new industrial policy, to invest in skills if they were reluctant to do so even in the pre-crisis era? How can they be seriously expected to invest in lifelong learning, training and innovation while they are suffering from shrinking access to bank loans at the same time? How can we keep young people interested in getting an industrial job even in other member states if there is a macroeconomic environment that is strongly characterized by calls for wage moderation and a weakening of workers' bargaining power? And how can we counter the growing risk that persistent economic disparities between the EU member states and austerity policies turn desirable increases in cross-border labour mobility and circular migration into an intra-eurozone brain drain – further depleting the eurozone periphery of its highly-qualified workforce to the benefit of surplus countries and thus even widening the competitiveness gap between the North and the South?

Last but not least, the Commission's objective to raise the GDP share of industrial production from the current level of around 16% to 20% by the year 2020 also brings to the fore the issue of **demographic change**. As far as we currently know industrialisation works best in countries with young, dynamic demographics. Within the next 50 years, however, most EU member states will face a considerable decrease in their workforce due to an ageing population. Against this backdrop the domestic labour market potential of an integrated European industrial policy will also depend on the question to what extent the working places created by a "Third Industrial Revolution" will differ from working places in traditional industrial production and will provide older employees with the opportunity to retire later.