

Rethinking the European Green Deal: An Industrial Policy for a Just Transition in Europe

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Abstract

The European Green Deal (EGD), launched by the European Commission in December 2019, is a major policy package addressing climate change and aiming at a “just and inclusive” transition. Several shortcomings can be identified in the EGD: it lacks a vision of a just, post-carbon economy for Europe; available resources are inadequate to reach stated objectives; and implementation tools are limited. We argue that making Europe’s production systems carbon neutral would require a broader range of “green” industrial policies that need to jointly address environmental sustainability, structural change, and fairness of economic outcomes in Europe.

JEL Classification: L5, O2, P48

Keywords

Europe, climate change, industrial policy, structural change

1. Introduction

On December 2019, the European Commission launched its proposal for a European Green Deal (EGD), a wide-ranging package of legislation with the aim to address climate change and to ensure a “just and inclusive” transition in the European Union (EU). Unfortunately, the policies set out in this package are not equipped to put Europe on a long-term socioecological path, with a radical change with past trajectories and tools for fair and sustainable economic outcomes across countries.

A growing literature has addressed the consequences of climate change and the challenges of a socioecological transition.¹ Several authors have tried to define huge industrial and financial

¹See Aiginger and Schratzenstaller (2016) for a review of the main challenges to set Europe on a socio-ecological transition path; on the challenges in facing energy transition, see Altvater and Mahnkopf (2018).

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plans to reduce the dependence on fossil fuels for advanced economies. The policy package proposed by Pollin (2017) includes a large investment plan and a wide-ranging transition program for fossil-fuel dependent communities, embedded in a strong industrial policy.² Pettifor (2019) has argued that a Green New Deal has to be rooted in structural and systemic changes across society, starting from a greater control of public authorities on the financial sector.³ Both studies stress the need to build a coherent strategy, grounded in a more active role of government, and consider de-carbonization as part of a commitment to fairness and social justice.

Europe's EGD completely lacks this ambition. It downsizes the scale of the environmental challenge and does not offer a coherent macroeconomic framework in which climate targets could be achieved; in addition, it does not rely on an active industrial policy, pushing back government involvement in the economy, and mobilizes inadequate resources to achieve a fair transition.

Building on our extensive work on European industrial policy (Lucchese and Pianta 2020; Pianta, Lucchese, and Nascia 2016 and 2020), we argue that a more ambitious industrial strategy for Europe—one which is in line with the proposals of Pollin and Pettifor—is crucial to develop a combined set of policies orienting Europe's investment toward environmentally sustainable activities, managing structural change and guaranteeing fairness in economic outcomes among countries and regions. In fact, the transition toward a green economy would require a reorganization of technologies, institutions, and governance, posing a real challenge to the European Union. As Rodrik has argued, the challenge of climate change directly affects the underlying structure of national economies and “places industrial policy squarely on the policy agenda of governments” (Rodrik 2014: 472).

This paper is organized as follows. In the next section we present the EGD, the new strategy announced by the EU Commission. In section 3 we address the key challenges to implement a new approach to industrial policy in the European Union with the aim to ensure sustainability and manage structural change. Section 4 concludes.

2. The European Green Deal

The EGD is a long-term commitment to the transition to a low-carbon economy in alignment with the 2015 Paris Agreement (European Commission 2019, European Commission 2020). It defines a roadmap to make Europe the first carbon-neutral continent by 2050 and reviews EU legislation in several areas which are relevant for a green transition.⁴ With such a plan, the European Union aims to bring Europe's greenhouse gas emissions target for 2030 to at least 50 percent of 1990 levels, becoming fully carbon-neutral by 2050. To this end, it plans to revise policy instruments and regulations, including the adoption of a new industrial policy strategy—announced in March 2020—with the aims of developing a green and circular economy, and supporting a digital transformation of society. Significantly, the strategy will be accompanied by a Just Transition Mechanism, a fund which is supposed to support sectors and regions that depend more on carbon-intensive processes. Through it, the EU Commission hopes to reduce

²Pollin (2017) proposed a plan mobilizing between 1.5 or 2 percent of global GDP per year for the next 20 years in order to raise energy-efficiency standards, expand clean, renewable energy supplies, and clean energy infrastructure, bringing global emissions down by 40 percent relative to the mid-2010s and supporting high economic growth rates.

³A Green New Deal along lines of the Anne Pettifor's plan has been proposed by the DiEM25 Group (2019). In the political arena, proposals for a Green New Deal have been advanced in recent years by the European Greens and by United States' progressive groups.

⁴Key fields include the creation of a fair, healthy, and environmentally-friendly food system; the supply of clean, affordable, and secure energy; the shift to sustainable and smart mobility; the preserving and restoring of ecosystems; and biodiversity.

the resistance of Central and Eastern European countries—who have always opposed more ambitious environmental policies as their productions are more dependent on carbon—and ensure a greater acceptance by Member States of European decisions on climate change targets.

While the EGD draws an overall strategy for sustainability, major weaknesses make it inadequate to seriously address climate change in Europe.⁵

First, the total amount of financing that is envisaged by the EGD could reach €1 trillion over the next decade—an amount that includes EU funds, national co-financing by Member States, and funds from private actors. Even if the European Union succeeded in mobilizing such an amount, this just represents a third of the European “green investment gap” to reach climate targets for the period up to 2030, as estimated by the European Commission (Claeys, Tagliapietra, and Zachmann 2019; Storm 2020). In addition, present plans largely rely on a repackaging of existing resources. A large part of these funds operates as an EU guarantee on which larger financial resources could be leveraged, mobilizing private investment in green technologies and productions. But companies are typically reluctant to finance activities where risks are high and technologies and processes have yet to be developed. In this case, a wider role of the government would require a new conception of the “risk-reward nexus”—as recalled in Lazonick and Mazzucato (2013)—where a stronger public authority should control the allocation of resources in riskier—and socially desirable—green investments.

Second, the Green Deal has weak policy tools for pushing business and governments to follow its priorities: business has no clear set of incentives for investing in sustainable production, and Member States have no official political constraints that may push governments to implement a Green Deal agenda. In fact, the EU Commission has not made clear how it will modify the price system—including carbon pricing—that has allowed business to take the road of environmentally destructive production activities. Moreover, there are neither actions on the possibility to use indirect taxes in a targeted way nor a much needed public discussion on how large public subsidies that are environmentally harmful could be progressively removed.

Third, the Green Deal has no relationship with overall fiscal policy in the European Union (Pianta, Lucchese, and Nascia 2020). At present, Member States can hardly expand their budget deficits for financing green expenditure; a first step in this direction could be a “golden rule” excluding environmental public investment from European fiscal constraints.

Fourth, the European Commission itself recognizes that the EGD would require a broad European industrial strategy. But present measures for industrial policy remain too narrow in scope and based on the usual reliance on the benefits of the Europe’s Single Market. It is not clear whether EU rules preventing state aid by governments to firms and sectors engaged in environmental transition will be revised; as a start, measures on ecological transition have to be exempted from current EU competition and state aid rules.

Finally, the Just Transition Mechanism should receive €7.5 billion of fresh funds from Member States, with the goal of leveraging about €100 billion of public and private funds over the period 2021 to 2027 (European Commission 2020), an amount which does not reflect the resources that will be needed to ensure the social restructuring associated to the climate transition (Storm 2020). In addition, there is no link to the Regional and Cohesion policies of the European Union, and no consideration of how the Green Deal could contribute to reverse the economic and social divergence between “center” and “periphery” in Europe that has widened in the last decade (Pianta, Lucchese, and Nascia 2016). At present, the potential for developing clean technologies and raising capital for green investments is highly uneven across European countries (Cleantech

⁵ See Euro Memo Group (2020) and Storm (2020) for a broader critical review of the European Green Deal.

Group 2017). This novel source of divergence may further increase disparities and fragmentation in Europe.

The EGD also envisages that the European Investment Bank (EIB) should no longer finance projects relating to the production of energy from fossil fuels, speeding up investments in the area of clean energy, energy efficiency, and renewable energies. However, this change is still not matched by a vision of the role the EIB could play in supporting the broader structural change of European economies, including the financing of activities that offer potential for job creation and for reducing territorial divides.

3. Key Challenges for a Green Industrial Policy

In this section we discuss some key challenges that a new green industrial policy in Europe should address, starting from the realization that, facing a green transition, market-based processes are expected to work poorly (Altenburg and Rodrik 2017; Pianta, Lucchese, and Nascia 2016).

3.1 *Macroeconomic and green industrial policies have to be integrated*

The integration of a green industrial policy with Europe's overall policy framework is a key requirement for success. In fact, a joint approach to environmental and industrial policy has close connections with fiscal, monetary, competition, trade, technology, and labor and wage policies that have to be considered.

With regard to fiscal policy, the launch of the Green Deal could be the opportunity to move out of the austerity trap and tight fiscal constraints that have contributed to Europe's stagnation (Pianta, Lucchese, and Nascia 2020). An expansionary fiscal outlook is needed to allow the growth in demand and investments that has to match the novel capabilities of sustainable production systems. Without a growth in demand—in private and public investment, in current public expenditure for environmental goods and services, and in exports and consumption—the reduction of old polluting productions would simply lead to a reduction of output, jobs, and incomes, destroying consensus for the Green Deal. The scale of the EGD should be coherent with the goal of achieving climate targets and should integrate funds from different levels: European Union, national, and local sources. These complementarities should be reinforced to foster a virtuous path of development.

With regard to monetary policy, the expansionary approach of European Central Bank's (ECB) quantitative easing is coherent with the requirements of a green industrial policy. However, money creation has to move out of financial circuits and support activities in the real economy (Pettifor 2019). Resources have to be directed to real investment—finding ways to directly fund the Green Deal budget, the investments of the EIB, and to alleviate the burden of the countries with high public debt. The possibility to introduce European Green Bonds should be considered.

With regard to competition, trade, and technology policies, the actions of green industrial policies could be temporarily exempted from the norms on competition, restrictions on state aid, and EU Single Market rules, as their objective is to develop activities that markets are unable to expand. This should include the possibility that targeted firms—with either private or public ownership—could be supported in various ways, including public procurement, in order to restructure their economic activities. Trade rules will have to account for the global goals of carbon reduction, avoiding the carbon leakage that could result from the shift of production to countries with laxer regulations than the European Union. Research and technology policies

have to obtain greater resources and to develop mission-oriented programs with specific sustainability targets (Mazzucato 2018).

3.2 Structural change in national economies has to be managed

The transition to a sustainable economy requires deep changes in technologies and production systems. Radically new technologies have to be developed and older ones have to be replaced (Altenburg and Rodrik 2017). Economic structures have to evolve with a broader use of knowledge, a reduction of technology gaps, the development of new production capabilities, and economic and social activities. In Europe, this evolution should take into account the divergence in economic performances and incomes that has emerged in Southern and Eastern European economies (Pianta, Lucchese, and Nascia 2016). Yet, a parallel conceptualization of the processes of deindustrialization, divergence, and environmental change is so far missing, with no vision of how a sustainable and more equitable economy may emerge in Europe.

The managing of this demanding path of structural change envisages a key role for public policies to set the direction of technological development toward the creation and diffusion of new clean technologies, creating new market opportunities, and fostering a green transition (Lamperti et al. 2018).

This approach to industrial policy has wide-ranging implications for Europe. First, the phasing out of old technologies and the introduction of new sustainable ones has major, widely differing effects on firms, industries, and workers across regions; the distribution of the benefits and costs should be considered, and appropriate adjustment policies should be developed. Coal, steel, and other heavily polluting industries in Europe are likely to need a long period of phasing out of old technologies, with a crucial role for governments in managing this process.

Second, with large-scale changes in energy sources and use of natural resources, prices and costs are likely to be deeply modified; appropriate ways to ensure continuing competitiveness have to be found in countries with different energy mixes. Such processes may amplify disparities between firms with greater technological capabilities and market power—which may move more easily into sustainable productions—and laggard firms with lower resources and older technologies, often located in weaker regions. This has already happened in the case of Information and Communication Technologies, where a more concentrated industrial structure has emerged in most areas, leading to greater economic, social, and territorial inequalities. Policies should be targeted to upgrade production capabilities of the system as a whole and encourage the catching up toward higher technological and environmental standards (Altenburg and Assmann 2017).

Third, in some fields—such as mobility in cities, the circular economy, and so forth—the move toward sustainability requires a drastic change in complex systems that affect production capabilities (such as the auto industry), infrastructure provision (smart systems integrating roads, rail, bicycle, and other forms of mobility), public services (traditional and new public transport systems in cities and metropolitan areas), individual habits of mobility and consumption (use of different means of transport, car sharing, etc.), with a need for reconsidering the priorities of urban and regional planning. The upgrading of infrastructures and public services, especially for Southern European economies and backward regions in Europe, becomes a preliminary and necessary condition for setting in motion changes toward sustainable systems.

Finally, these changes in technologies, production systems, and service provision are likely to have a major impact on the quantity and quality of jobs, skills, and wages. Policies should ensure that the benefits of greater sustainability are widely spread to workers in terms of greater employment opportunities, and higher skills and wages, making sure that territorial disparities in these fields are reduced.

3.3 *New governance arrangements have to emerge*

Building a low-carbon economy asks for a new model of governance of economic activities in the European Union.

A first issue concerns the coordination between top-down—European Union and national—and bottom-up—local—policies, that can be very relevant in addressing environmental changes: in the first case, we have investment projects selected by a “technocratic” authority such as an investment bank; in the second one, we have place-based approaches—which have been shown to work better in more advanced European regions—such as the EU “smart specialization strategy.” A key question here is how to design policies that take into account the different resources and institutional capabilities of countries, regions, and production systems in Europe (Bailey, Glasmeier, and Tomlinson 2019).

A second question concerns the balance between public and private interests that should be found in setting rules, funding initiatives, managing projects, and making decisions (Rodrik and Sabel 2019). The reach of public policies could vary, on the basis of institutional capabilities and power relations.⁶ Public authorities could: set the general goals of the transition to a sustainable economy; organize a “corporatist” consensus among economic and social actors; create public research and technology diffusion agencies for developing the required know-how together with firms and universities; establish or support public banks for funding projects; or develop public enterprises for implementing the required changes.⁷

3.4 *Sustainability and convergence are political projects*

The transition to a low-carbon economy is a political process, constrained by vested interests. It requires a long-term vision on the future of Europe, a wide consensus from European countries, citizens, social forces, unions, and political parties. For European citizens—and voters—the concrete benefits of a more sustainable and less unequal development should be evident, in terms of improved environmental and social conditions, job opportunities, and higher skills and wages, while more vulnerable families should be protected by changes in energy prices and supported in the transition. These are crucial requirements for mobilizing a broad support around the proposal of a European industrial policy.

For major economic actors, a green industrial policy represents a novel arena of conflict where the maps of economic and political power are redrawn at the national and European level; careful “conflict management” (Chang and Andreoni 2016) and new compromises are required to bring large firms and financial actors to an agreement on such an agenda of sustainability. For intergovernmental relations, a European policy integrating sustainability and convergence has to build a common vision and find a difficult agreement among countries with different national interests and priorities. Key elements in this regard include the distribution of costs and benefits, the balance between incentives and constraints, the institutional setting, and decision power arrangements.

Finally, as in previous technological transitions, changes in production systems have to be matched by appropriate changes in institutional settings and social dynamics in order to obtain the benefits of a more sustainable and equitable economy (Perez 2015). Wide-ranging, environmentally conscious changes in political processes, governance arrangements, collective practices, and social relations are the ways a vision of a sustainable Europe could be turned into reality.

⁶Pollin (2017) has emphasized the need to experiment alternative ownership forms in managing environmental changes, including smaller-scale public, private, and cooperative initiatives.

⁷See, for example, the work of Block, Keller and Negoita (2020) on the United States innovation system.

4. Conclusions

There is an urgent need to bring Europe on a path of sustainability. But, to be convincing and effective, the EGD has to be integrated with a more ambitious industrial policy and a shared vision of the challenges we have ahead. The policy space at the European and national levels has to be expanded, with new effective tools of public intervention.

Cornerstones of a more radical policy departure—in line also with the proposals of Pollin (2017) and Pettifor (2019)—include the awareness of the substantial scale of the investment required; the need for linking credit availability and structural change; the understanding that market-based solutions cannot fix environmental problems; the idea that public authority should take the leading role in changing the economy; and finally, the need to closely connect the green transition and democratic processes.

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