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The evolution of German and Italian industries and the changing Competitiveness of Europe

Università degli Studi di Urbino Carlo Bo

1 February 2024

# A new industrial policy for the EU and old problems with Germany: Arguments for a new Catalytic Industrial Policy

The outcome metrics of making the EU an attractive place for green and digital businesses.

Mario Holzner, wiiw Director

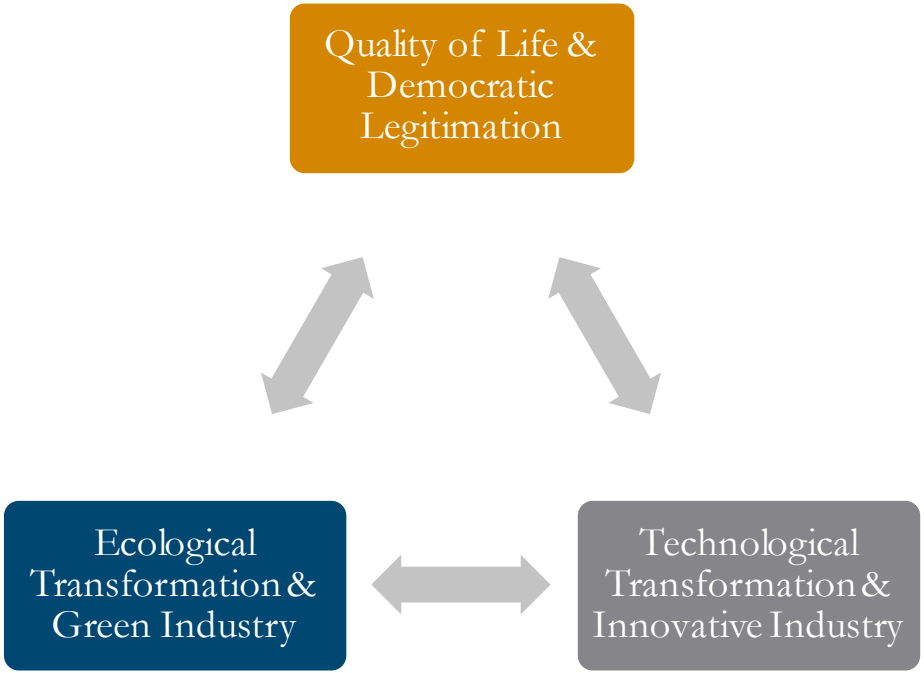
@MarioHolzner

# Policies of ever-increasing efficiency of the EU's internal market were unable to cope with the successive crises of the 21st century

- A paradigm shift in the making acknowledging trade-off between efficiency and security (e.g. social, cyber, value chain, military, climate)
- Rediscovering the political economy: e.g. in case of Brexit, which Andrés Rodríguez-Pose identified as 'the revenge of the places that don't matter'
- Need of a new 'Catalytic Industrial Policy' to maximise investment in structural change at the end of the fossil-fuel-age and the onset of age of AI
- Guided by Martin Sandbu's 'The Economics of Belonging' (wage compression) and Massimo Morelli's research on populism (commitment and trust)

# Truly catalytic policies must target all major challenges at once to overcome them more quickly – indicators, too…

Endogenous Network of Catalytic Industrial Policy



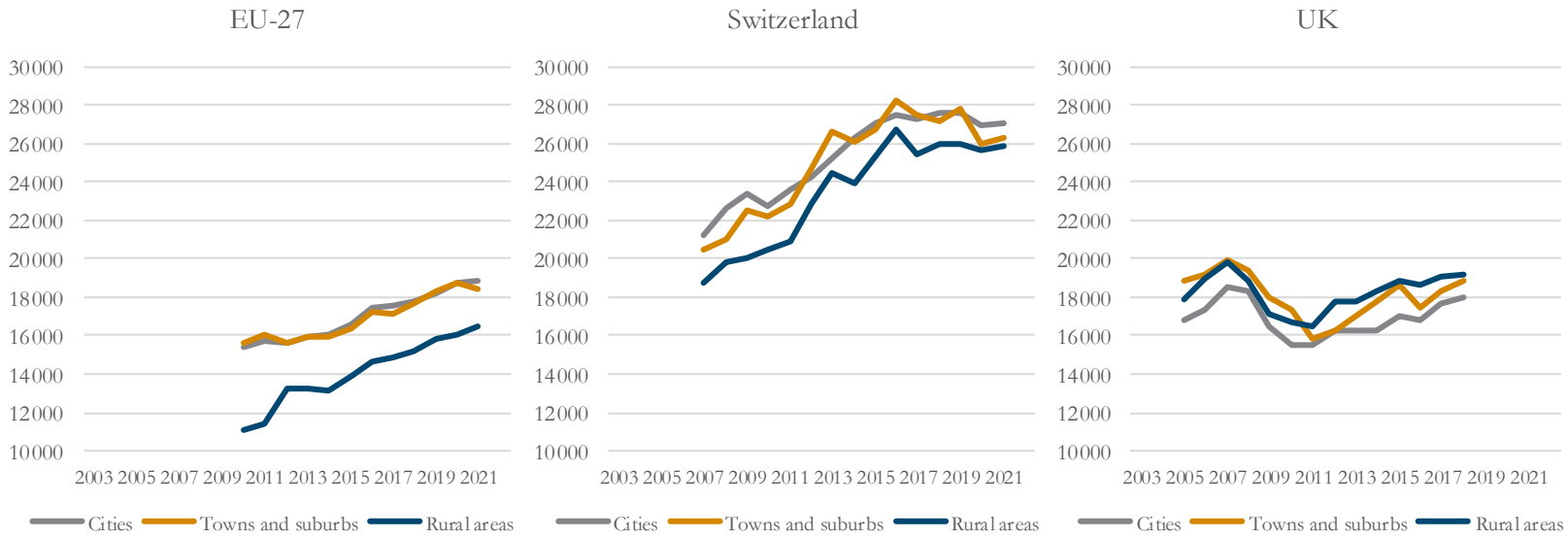

Source: own elaboration.

## The identification of the specific indicators in the three areas is based on the following pragmatic selection criteria:

- indicators need to be relevant for the specific but also the other 2 areas
- due to the availability of the respective indicator across time and space
- either based on the inclusion in earlier collections of related indicators
- or else based on a deliberate decision to present an atypical indicator
- indicators should also be presented in a disaggregated form
- indicators should be related Article 3 TEU and Article 173 TFEU
- they also need to be SMART – i.e. specific, measurable, achievable, relevant and time-bound (when it comes to the operationalisation)

# A better quality of life in support of a democratically legitimated structural change

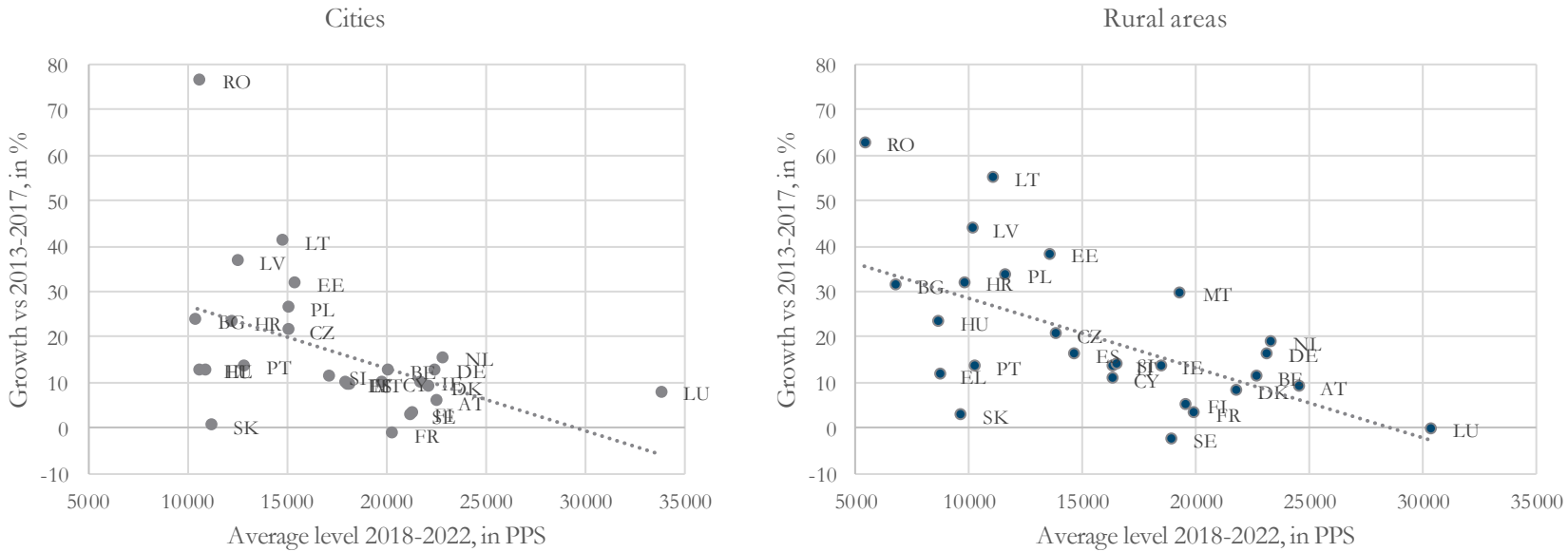
Median equivalised net income at PPS, by degree of urbanisation, international comparison




Source: Eurostat Indicator ILC_DI17.

# FR cities, SK towns and SE rural areas have experienced a drop in median net incomes 2018-2022 vs 2013-2017; DE minor improvements

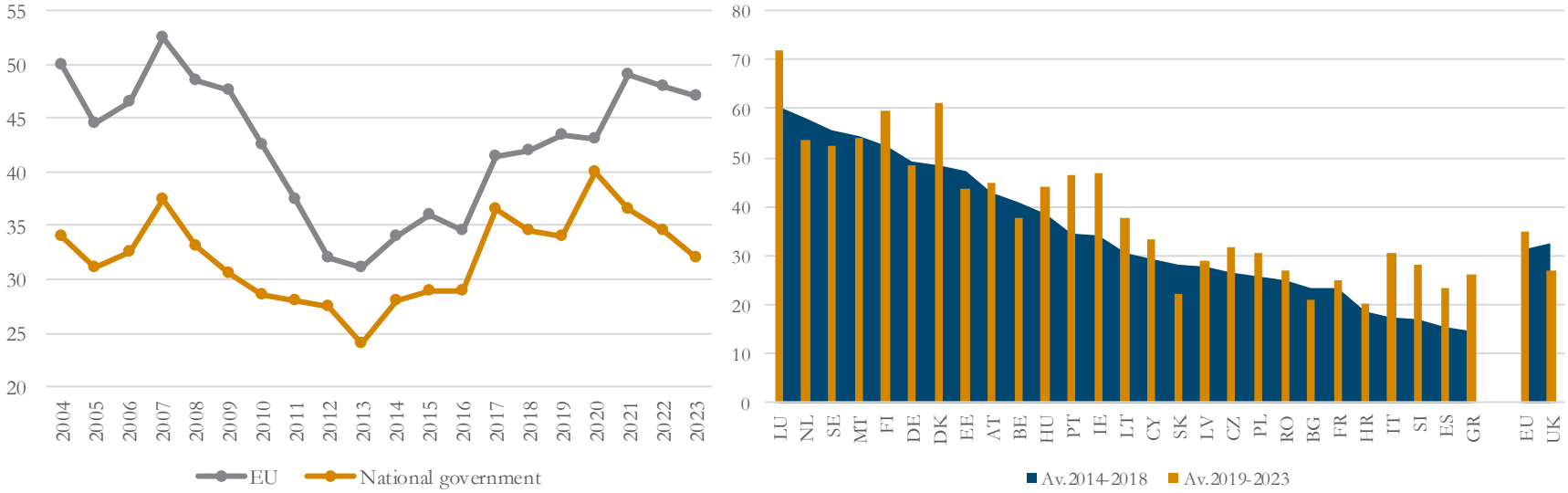
Median equivalised net income at PPS, by degree of urbanisation, EU comparison




Source: Eurostat Indicator ILC_DI17.

# Trust in the Swedish and Slovak governments fell over the longer run, this is similar to the drop in trust in the UK; Germany stable

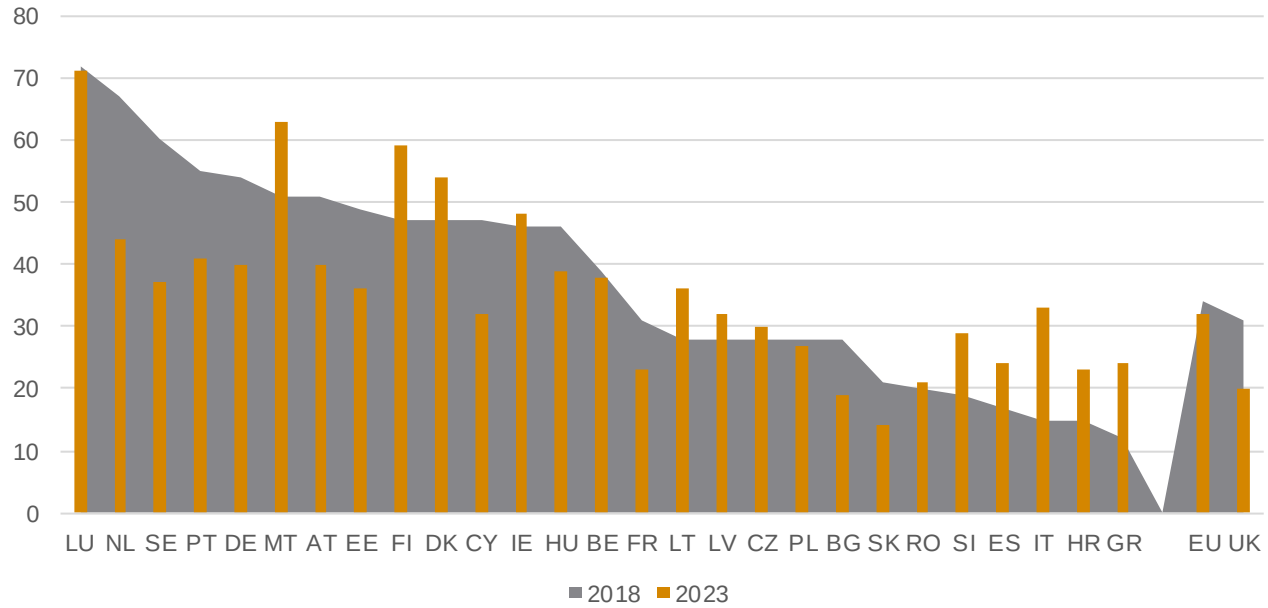
EU citizens that tend to trust in the EU and (left) national governments (right), in % of total




Source: Eurobarometer.

# Over the medium term, trust in SE government fell by almost 40% between 2018 and 2023, more than in the UK; SK worst; DE bad, too

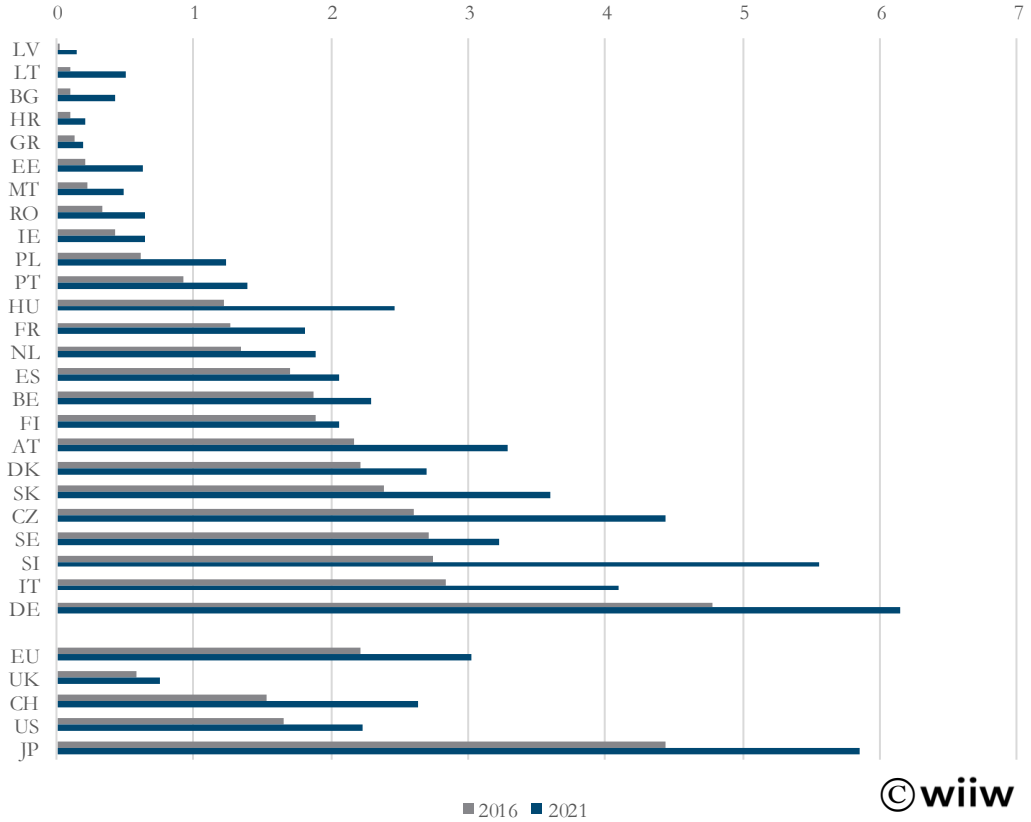
EU citizens that tend to trust in the EU and (left) national governments (right), in % of total




Source: Eurobarometer.

# Mastering the technological transformation by fostering a stronger and more innovative industry

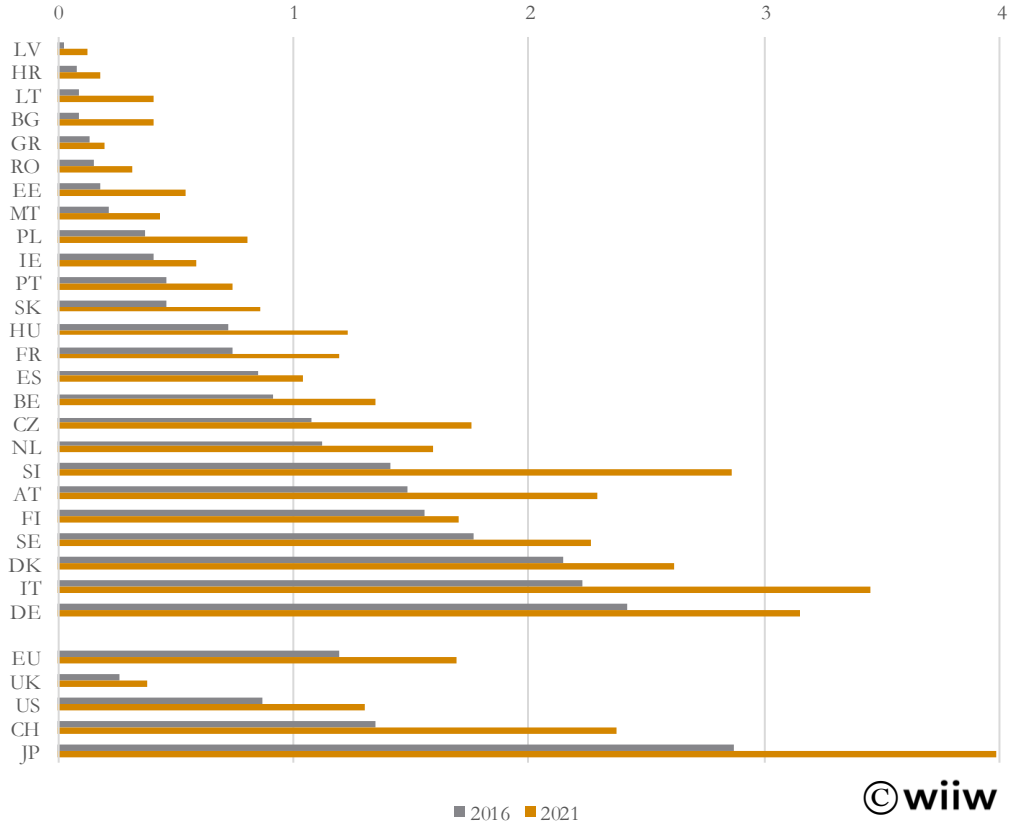
Operational stock of robots in all industries relative to 1,000 employed aged 15-64




Note: Employment according to LFS. US and UK employed aged 16 and over, JP 15 and over. Ranking according to 2016.
Source: IFR, Eurostat, national statistic.

# Automation for a policy of wage compression; but worry about German automotive specialisation

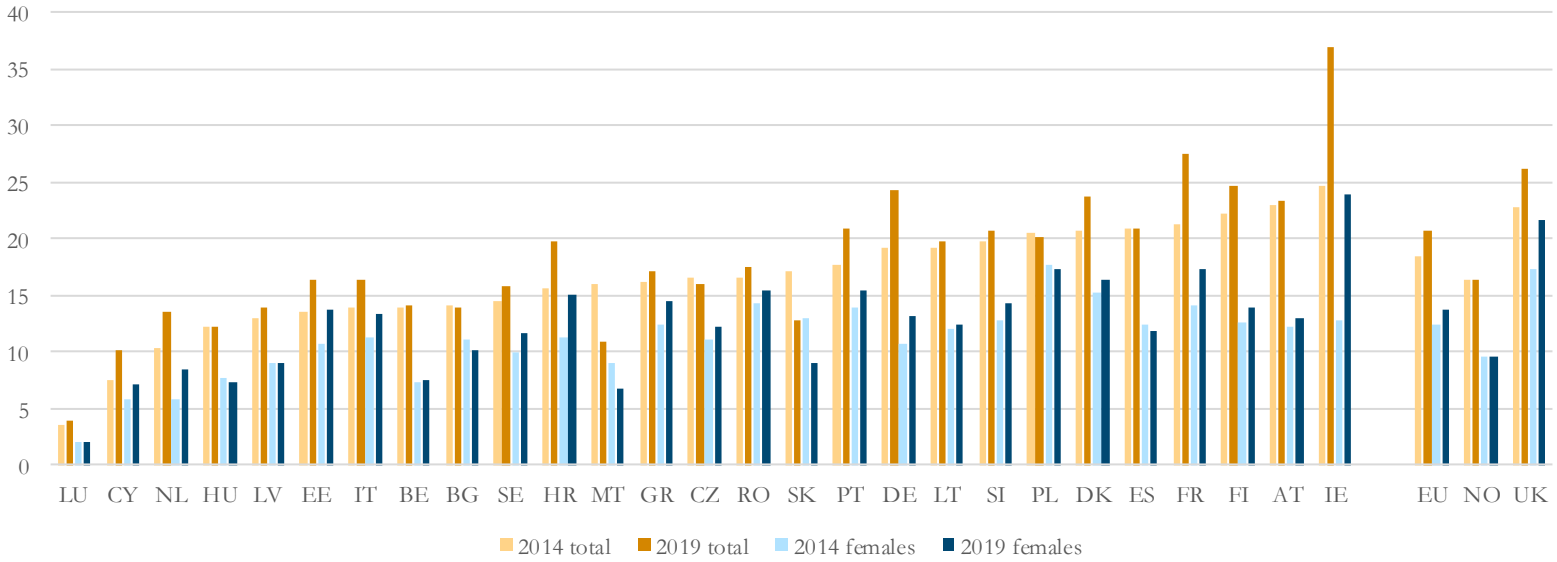
Operational stock of robots in all industries, except the automotive, relative to 1,000 employed aged 15-64




Note: Employment according to LFS. US and UK employed aged 16 and over, JP 15 and over. Ranking according to 2016.
Source: IFR, Eurostat, national statistic.

# Between 2014 and 2019 the EU was able to increase science and technology graduates' share by only 2 pp. (females by only 1 pp.)

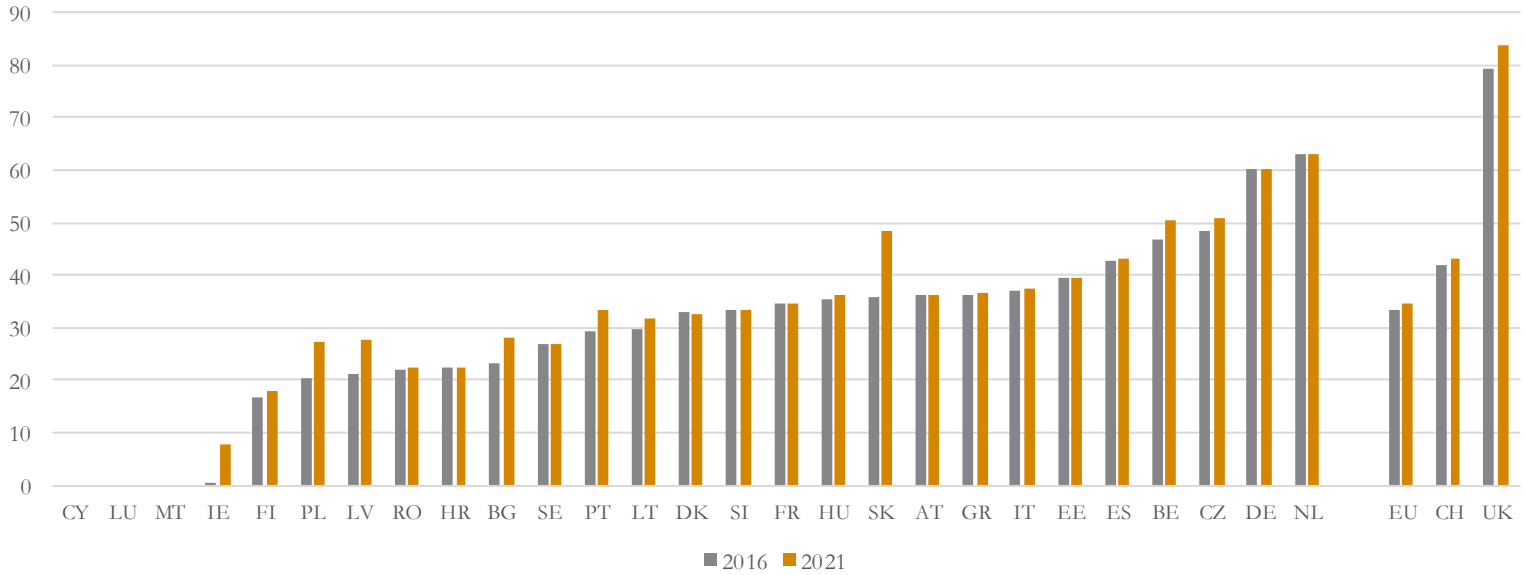
Science and technology graduates per 1,000 inhabitants aged 20-29 years, total and females




Note: New tertiary graduates in a calendar year from both public and private institutions completing graduate and post graduate studies compared to an age group that corresponds to the typical graduation age in most countries. Ranking according to 2014, with data for FR and NL from 2015 and NO 2017.
Source: European Commission, Digital Scoreboard.

# Mastering the ecological transformation by putting up the ladder for the EU's green industry

Length of high-voltage circuits ≥ 275 kv, in km per 1000 km2 of surface area

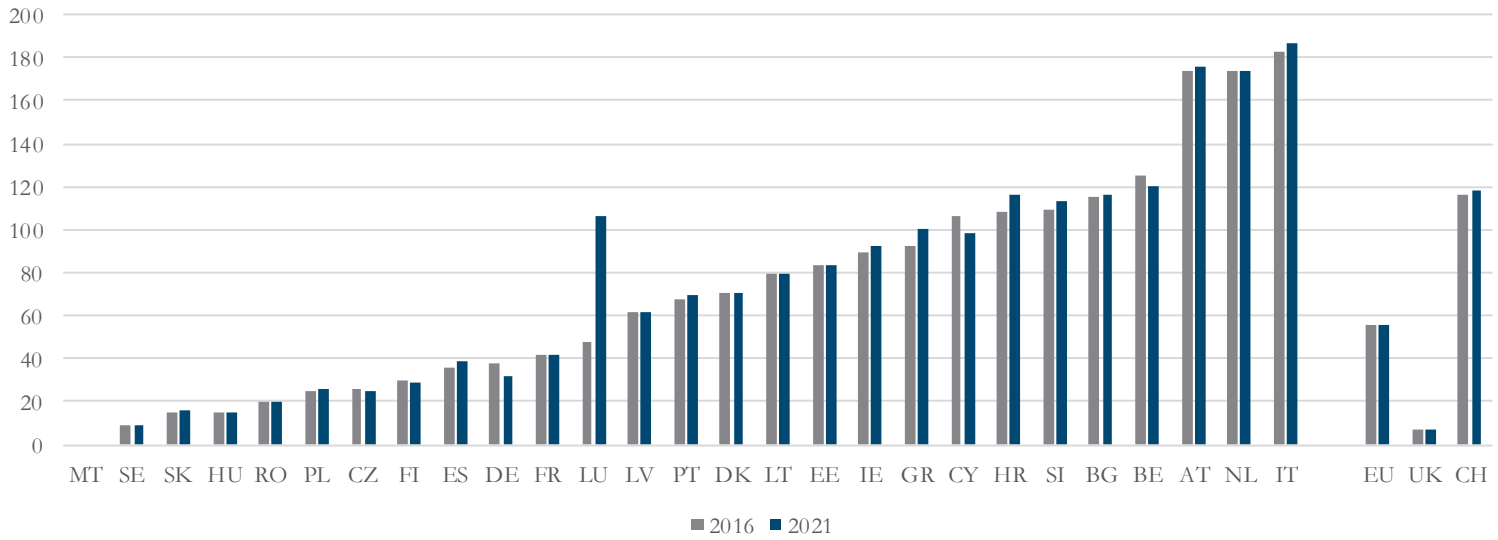



Note: 2018 latest data for CH, CY, EE, UK, IE, LU, SE and 2017 for NL. Ranking according to 2016.

Source: entsoe, Eurostat, national sources.

# Don’t forget the low-voltage transmission for decentralised green energy; instead of increasing it, Germany reduced its small network

Length of low-voltage circuits ≤ 220 kV, in km per 1,000 km2 of surface area

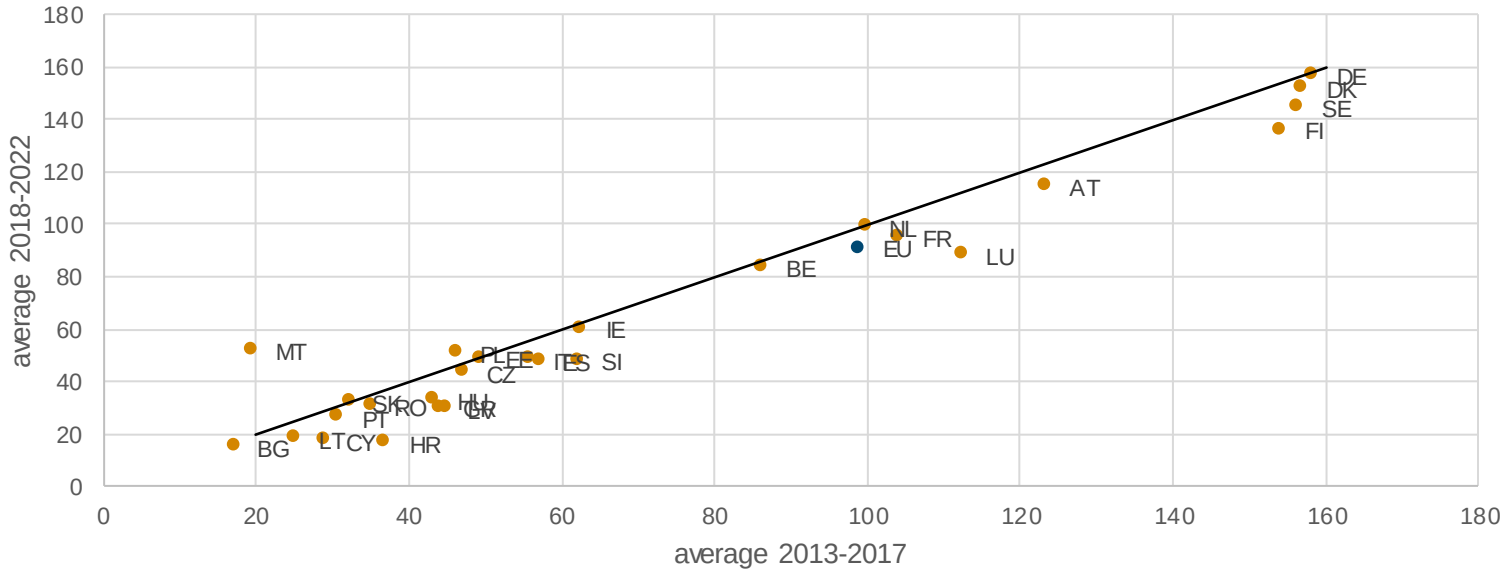



Note: 2018 latest data for CH, CY, EE, UK, IE, LU, SE and 2017 for NL. Ranking according to 2016.

Source: entsoe, Eurostat, national sources.

# Only Malta, Poland, Slovakia and Estonia did not experience a decline in eco-innovation patents, but these are increases from very low levels

Eco-innovation related patents per one million population

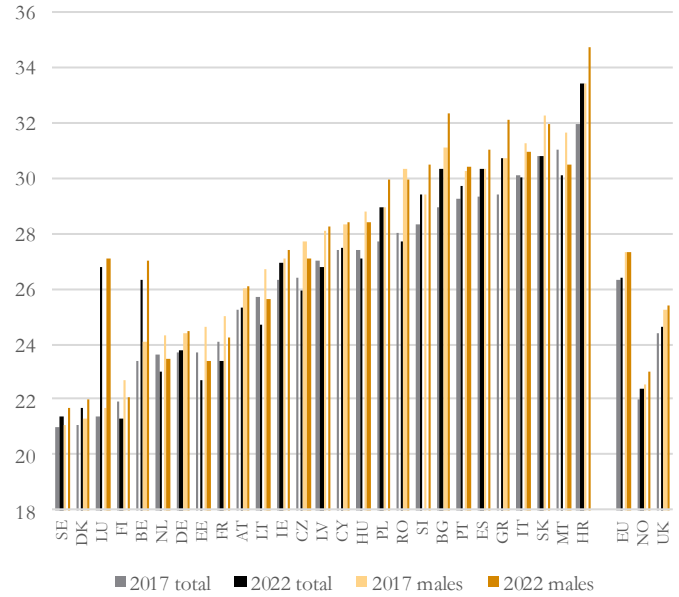


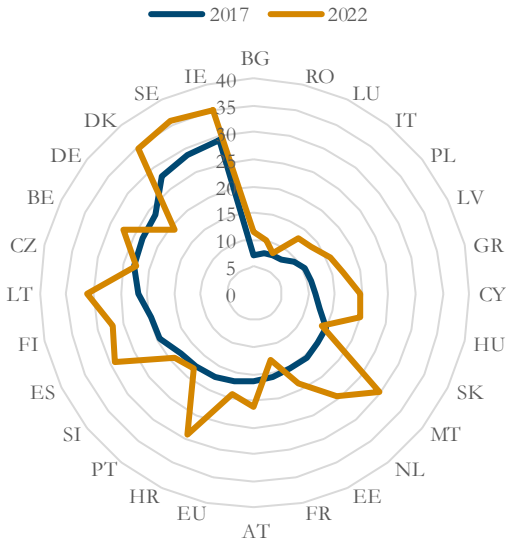

Note: 45° line included. Blue marker for the EU figure.

Source: EU Eco-innovation Scoreboard.

# CIP-example: high-quality, sustainable (public) housing in support of digital revolution, $CO^2$ reduction and legitimate structural change

Average age of young people leaving the parental household; Share of SMEs selling online; Growth of residential greenhouse gas emissions from energy use in CO2 eq. per capita, av. 2012-2016 vs. 2017-2021





Source: Eurostat, European Commission DESI dashboard, European Environment Agency.

## Conclusions for Germany

- Europe's core economy is grappling with self-imposed challenges, particularly evident in its adherence to a debt break policy
- It finds itself in a self-mutilation mode, facing the repercussions of its over-reliance on car manufacturing amid a global shift in industry
- Struggling to fully embrace the digital revolution, Germany's energy infrastructure is also deteriorating
- Europe as a whole needs a new, catalytic industrial policy to navigate these challenges and foster sustainable economic growth.

# CIP-conclusions

- Need for a Catalytic Industrial Policy aiming to maximise positive outcomes on 3 axes (green, tech, social)
- Guide investments in desired directions, while ensuring benefits are widely shared (e.g. through conditionalities)
- Bold CIP needs permanent monitoring, including relevant outcome indicators with pre-defined selection criteria
- Key objective of such indicators is to shed light on interdependencies
- Look beyond already widely used indicators (e.g. trust in national governments, operational stock of robots, areal density of high- and low-voltage circuits in the transmission of electricity)

# Thank you for your attention!

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