

Coordinating Industrial Policy

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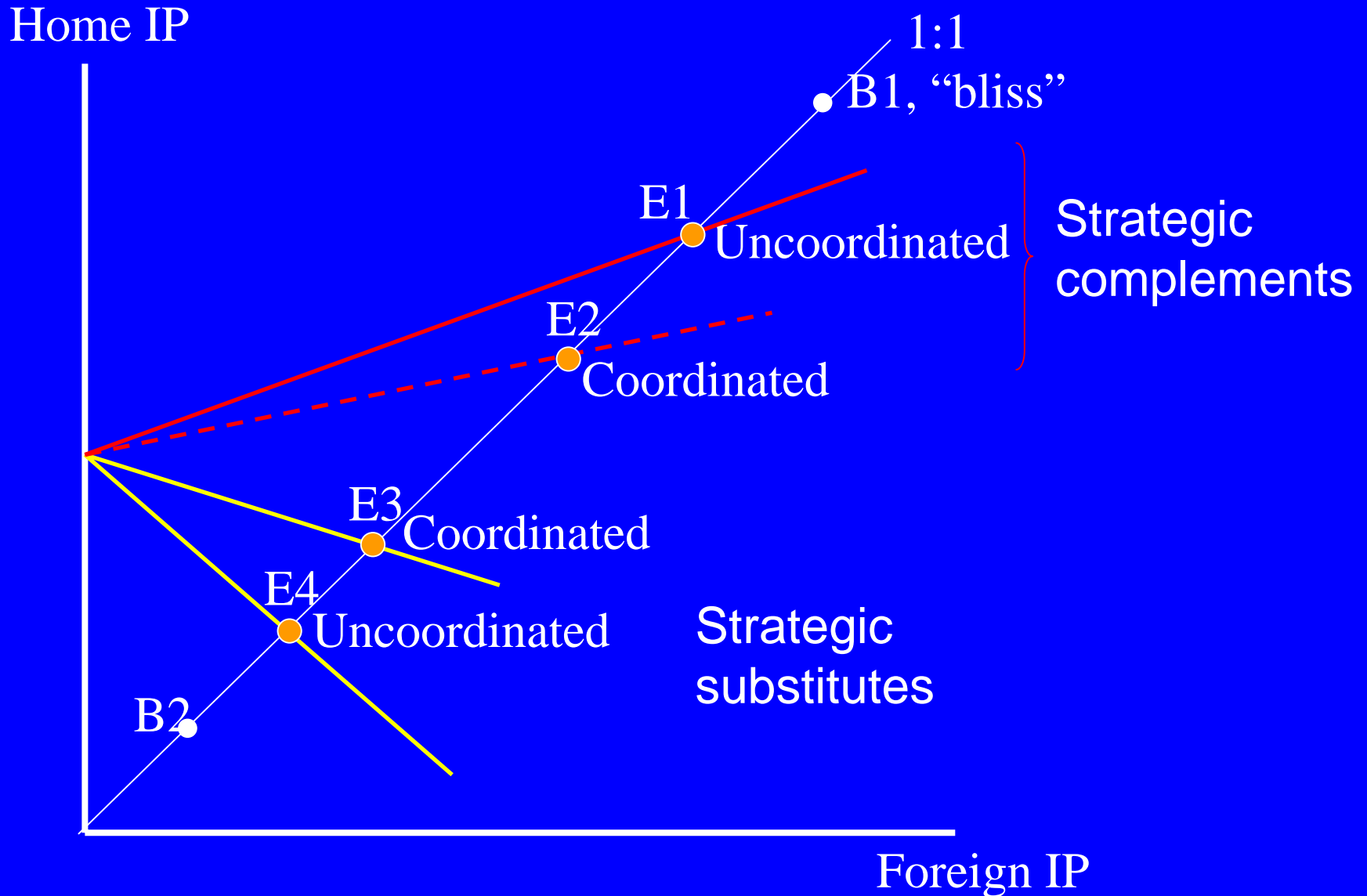
Plan of paper/talk

- Outline
- 1. Intro: Policies that affect the volume &/or composition of industrial output, mostly manufacturing.
- 2. Coordination: pros and cons?
 - - Harmful coordination (social charges)
 - - Information problems
- 3. Helpful coordination examples
 - - Prohibitions of subsidies (negative coordination)
 - - Foster global public goods (positive coordination)
 - - Delegation versus coordination
- 4. Coordination & Localness
 - - In product markets
 - - inputs
- 5. Conc & policy implications

Coordination: Good or Bad?

- If governments are perfect, coordination is never bad
- Many reasons governments make wrong choices
 - Political economy distortions
 - Information problems
 - Commitment problems
 - Etc.

Coordination: Good or Bad?



Harmful coordination

- Gov't raise taxes via economically inefficient taxes like social charges since the tax burden is not transparent.
- Social charges are anti-IP: Tax on traded and non-traded sectors, reduce employment but biggest effect on traded sectors since labour demand is flatter.
- Coordination would lead to even higher employment taxes and may worsen the situation.
- More generally: coordination is bad if international distortion eliminated by coordination compensates for a national distortion

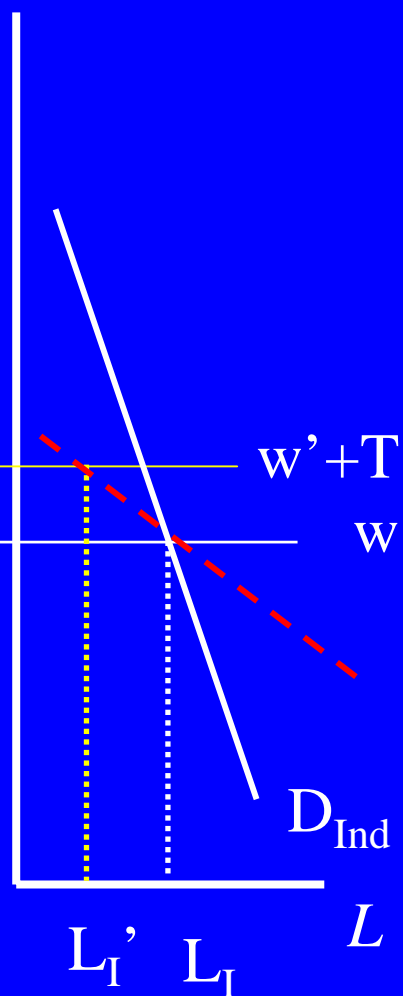
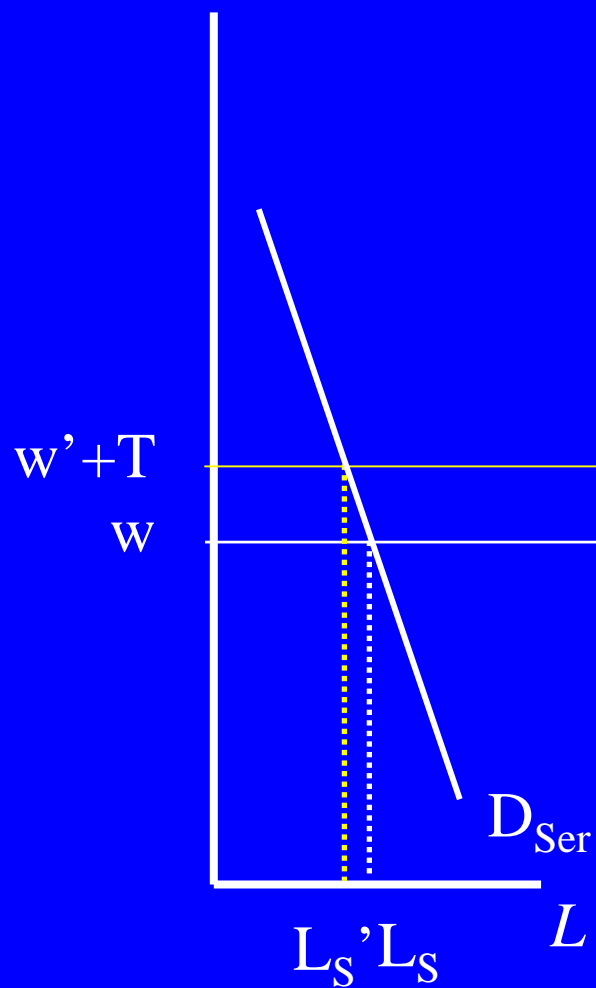
Harmful coordination

Services

Industry

Real wage

Real wage



Harmful coordination

- Good IP requires local knowledge.
- Strict coordination at EU level unlikely to lead to best policies.
- General presumption should be no coordination unless there is a strong case for it.

Helpful coordination

- Strong case for positive coordination
- Basic science funding: case of strategic substitutes
- Positive spillovers
- global public good requires European wide public funding

Helpful coordination

- Negative and positive coordination.
- Most of EU coordination is ‘negative’.
- Common adoption of self-denying regulations that improve the equilibrium outcome.
 - State aid discipline
 - Import barriers
 - Harmonization of standards and regulations
- Example: production subsidies
 - Strategic complements that lead to too much subsidies
 - Coordination: we all agree not to do it.
- Role of EU institutions: Commitment device.

Helpful coordination

- More subtle coordination benefits: commitment device
- Example: joint competition policy (seen as IP)
- Argument: Competition policy (anti-collusion) increases size of industry but if un-coordinated, countries with lax competition policies may gain larger share of industry (see electricity)
- Wo. coordination on competition policy, difficult to accept liberalization and integration policies
- EU wide competition rules matter less for what they can achieve (relative to national) than for what they prevent (beggar-thy-neighbour behaviour)

Helpful coordination

- In the same vein but more debatable:
- In the context of the argument on strategic trade policies: finance subsidies to R&D for large industrial projects
- commitment device to induce non EU competitors to leave the market
- Size matters for credibility of commitment so coordination on projects may be good (subject to usual problems with strategic trade policies)

Input local-ness

*Positive
spillovers
potential*



Social
capital

High
skilled
labour

Basic
science

Where
coordination
makes most sense

Tacit
knowledge

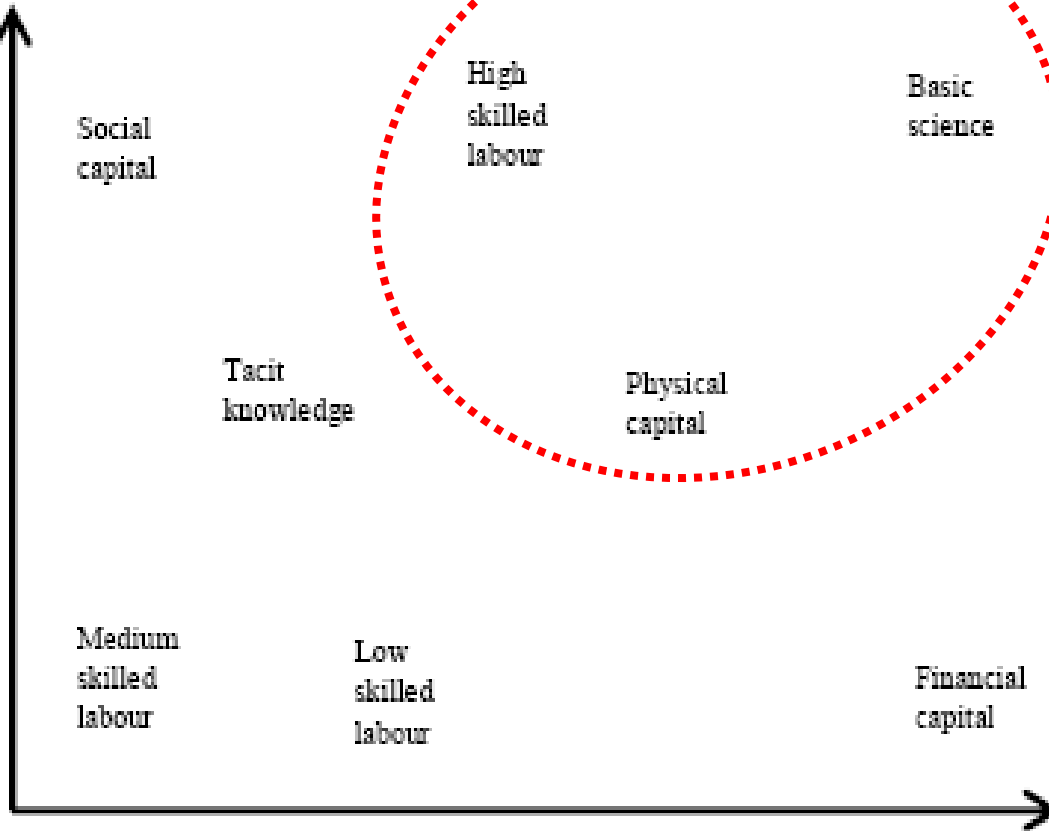
Physical
capital

Medium
skilled
labour

Low
skilled
labour

Financial
capital

*International
mobility*



Conclusions and policy implications

- The case for coordination of IPs is less strong than in other fields of economic policy (external trade policy, monetary policy)
- Gains are not always obvious (political economy distortions), costs (information) may be high
- In some cases, eg basic science, large benefits will be recognized: ad hoc cooperation will work
- No need to set up a new structure for coordinating IP