New Industrial Policy for Transformation of European Economies

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Abstract:

Formulating appropriate development policies represents a significant challenge for academics and those involved at the implementation level. Since the early 1990s, when the biggest economic experiment in the former socialist and communist countries of Eastern Europe started, the world has faced accelerating trends of globalisation and increased trade, the rise of economic power in East Asian countries, the close intertwining of value chains, and the reduction of the share of manufacturing activities in the overall GDP structure (Stiglitz, 1998).

By the late 1990s, it became apparent that merely increasing GDP per capita as a measure of prosperity was no longer the sole goal. Instead, a broader view was needed, incorporating environment, health, and other determinants of people's well-being into development priorities. Attention also needed to be paid to how the created value is distributed, as income and wealth inequality were increasing (Piketty & Cantante, 2018). Although productivity growth remains important, it is not the only goal of development policies. It is a necessary but not sufficient condition for achieving greater societal well-being.

Fifty years ago, development economics was considered a mechanistic discipline of economics. It emphasised the significant role of the state, as markets alone could not ensure efficient allocation of resources and poorly coordinated different economic entities in the case of missing markets or externalities. Because markets are imperfect, state intervention can almost always lead to a Pareto improvement for certain individuals without worsening it for others (Greenwald & Stiglitz, 1986, 1988; Arnott, Greenwald, & Stiglitz, 1994). On the other side, a significant part of the academic literature in the 1980s warned that the active role of the state in the allocation and coordination process was part of the problem, not the solution. Reducing the state's role in allocation and coordination and giving more space to the private sector and markets to set prices based on market mechanisms would improve allocation, coordination, and, ultimately, economic growth. The (sole) responsibility of the government was to ensure an appropriate macroeconomic environment because interfering in the economy would do more harm than good. This belief led to a neoliberalist approach to economic policy in the 1990s, often referred to as the Washington Consensus, which emphasised increased international trade, macroeconomic stability, and market prices. However, it did not bring as significant contributions to productivity as its proponents had expected.