

Innovation Policy in the European Union

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With the fast-moving pace of the world in the past decades; globalisation, the pressure on resources and the ageing processes intensifying, it signifies that the European Union is compelled in taking charge of its own future. For the purpose of doing so, the European Union introduced the 2020

European Union Strategy that involves policy aims to implement the national targets successfully among the European governments. With the implementation of these political procedures, the European Union aims to move from a Washington consensus model towards a Developmental State accentuated model. The Developmental State model is a model that strives for state forms that retain high levels of autonomy and institutional capacity from the different divisions of the capitalist classes¹. The following essay examines the current state of the European Union and its gradual shift towards a Developmental State. On this premise certain recommendations are made.

The Washington Consensus (WC) involves a neo-liberal ideology that mainly devotes itself to a free market while the government holds a position as a source of inefficiency². The three principal ideas presented in the consensus involve, specifically, openness, the promotion of a market economy, and a macroeconomic discipline³. Overall the neoclassical ideology presumes that the market is efficient while, on the contrary, the state remains inefficient regarding economic development. For this reason, the market should address economic problems as the creation of employment and industrial growth⁴. Besides the significant role of the market, interest rates are also a significant factor since a 'correct' amount could lower the inflation, improve the allocation of resources, payment equilibrium, and high growth rates in the long run.

Within the past decades the policy makers in the European Union implemented the prescriptions of the Washington Consensus into the constitutional structure of the EU⁵. By doing so, they limited the fiscal, monetary and economic policies while increasing competition through privatization, budget balance, and price stability. However, since the European Union consists of a particular currency zone a “doctrinal partiality” is tough to govern⁶. Namely, in a low labour mobility context the WC calls for wage and price flexibility, however, since it cannot be accompanied by exchange rate devaluation, the flexibility would imply a wage deflation together with oppressive costs. This means that the only option for cost devaluation is through tax competition and the dismantlement of the welfare state, as this will improve competitiveness. Similarly, it would reduce the government’s role which are main factors for the WC⁷. Even though there are efforts of implementing the structural adjustment programs, the neo-liberal ideology led, initially, to international debt and the EU’s need for a renewed fiscal policy.

Ultimately, within the last two decades the monetary policy and fiscal policy were the primary factors of growth, not only for the European Union, but also for the United States between the 1980s and 2000s. This means that even though the macroeconomic policy is virtuous, structural reforms are missing. These reforms include for instance the standardization of labour markets that cover employment protection, the benefit system, and active labour market policies that for Europe causes more inclusive growth through a higher employment economy encouragement than in the case of the WC. Thus, it can be stated that the WC is not effective for economic development, innovation and sustainable- inclusive growth without the necessary structural reforms that the European Union misses.

The European Union as a Developmental State

Increasing societal pressures call for social and appropriate solutions from the private sector. If profit is the chief goal, however, we cannot under WC rules assume these solutions to arise. Therefore, a developmental state model, where the EU takes a central and guiding role in its member’s innovation could help. *A priori* this includes more power to the EU, something that, evident from current anti-EU discourse on member states’ national level, will be difficult to achieve. Still, the EU must pursue it as putting faith into the private sector alone is not enough.

Ziya Onis, however, questions the compatibility of this developmental state model¹⁰. Utilizing the examples of Taiwan, South-Korea, and Japan, we observe nations in which the degree of government power was high and the degree of political liberalisation and of civic participation was low. Consequently, government was able to steer and guide public-private partnerships, enforce a *juche*¹¹ attitude towards growth only, and create an ‘unusually’ high bureaucratic capacity. Intuitively, these are aspects of the developmental state that the European Union through soft power and non-binding, supranational legislation alone cannot enforce.

Post-Structuralism, dichotomies, and advice



What can the European Union do then? Academia loves to present debates in a dichotomous sense; either a minimalist approach using the Washington Consensus guidelines should be followed, or a ‘maximalist’ approach using the Developmental State guidelines should be followed. None apply in a strict sense. Using post-structuralist theory to deconstruct this dichotomy we observe, essentially, two models that are case-specific and highly incompatible. The EU, conversely, must critically assess its own role with regards to innovation in *Europe* and write policy accordingly.

In my view, the EU should, as the agglomeration of an entire Europe, shape and create innovation policy that benefits the most of Europe. Therefore, themes such as redistribution, inclusivity, and democracy should be visible within an innovation framework. Subsequently, this does mean that the EU should be a ‘government’ that is active, yet it should not undermine its political liberalization for the sake of more government control. Rather, it should deter unethical, profit-maximizing innovation, and it conversely should promote positive and socially impactful innovation. The EU currently does not possess, as Ha-Joon Chang denotes, the legitimacy to create and optimize the usage of ‘planning agencies, coordinating committees, or sectoral agencies’¹². In pursuing a more active role for the EU within the field of innovation, the EU should seek out to increase its power and garner more widespread acceptance.

References/Endnotes

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- ³ Ibid.
- ⁴ Symoniak, J. (2011). The Washington Consensus, 5(1), 1-10. Print.
- ⁵ Fitoussi, Jean-Paul and Francesco Saraceno (2014). European Economic Governance the Berlin-Washington Consensus. 1.
- ⁶ Fitoussi, Jean-Paul (2012). The Brussels-Frankfurt-Washington Consensus.
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ Ibid.
- ¹⁰ Öniş, Z. (1991), The Logic of the Developmental State, review of 4 books (*Asia's Next Giant: South Korea and Late Industrialization* by Alice H. Amsden; *The Political Economy of the New Asian Industrialism* by Frederic C. Deyo; *MITI and the Japanese Miracle* by Chalmers Johnson; *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* by Robert Wade), *Comparative Politics*, Vol. 24, No. 1 (Oct., 1991), pp. 109- 126.
- ¹¹ Juche, or 주체 in Hangul, indicates the mentality of autonomy and of pursuing growth without the aid of the outside world.
- ¹² Chang, H.-J. (2010), How to 'do' a developmental state: Political, Organizational, and Human Resource Requirements for the Developmental State, in O. Edigheji (ed.), *Constructing a Democratic Developmental State in South Africa – Potentials and Challenges* (Human Science Research Council Press, Cape Town)