

Not ‘Rolling Back the State’*

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Abstract

One of the premises of rising neoliberalism from the 1980s had been the claim of Ronald Reagan that government is the problem not the solution, readily endorsed, in parallel, by Margaret Thatcher on coming into government.

Drawing on a range of international examples this paper shows that this was utterly uninformed, that deregulation of finance in the US led to the worst financial crisis in 2008 since 1929 and that Thatcher’s scrapping of the 1970s Labour governments’ industrial policy instruments led to major de-industrialisation in the UK which influenced the ‘No’ vote in the 2016 referendum on whether Britain should remain in the European Union.

While the US nonetheless pursued an industrial policy by stealth which promoted a range of advanced technology corporations and that Germany, embodying liberal market principles after WW2, recently has endorsed the case for not only a German but also European industrial policy and led in advocating a European Green New Deal modelled on the Roosevelt New Deal which recovered the US from The Depression of the early 1930s and convinced Truman to support the Marshall Aid programme that also recovered Western Europe after the cataclysm of WW2.

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1. Introduction

In 1975, at her first shadow cabinet meeting after displacing the Keynesian Edward Heath as leader of the Conservative Party, Margaret Thatcher raised a copy of Hayek’s Road to Serfdom and declared ‘this is my manifesto’ (Hayek, 1944; Cosgrave, 1998). Not that it is clear that she ever had read it, nor the parallel case of Milton Friedman for deregulating markets in his 1962 Capitalism and Freedom, or his 1971 Free to Choose. Rather, she liked what she had been told of them through one of her key parliamentary colleagues and advisers, Sir Keith Joseph (New Statesman, 2009).

Which symmetrised with the low tax and anti-trades union values that she had drawn from her shopkeeper father, and in her view, legitimated ‘rolling back the frontiers of the State’, paralleling the same claim made by Ronald Reagan in his first

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inaugural address (The Financial Times, 2013). As well as allegedly reinforcing her own claim that '[...] there's no such thing as society. There are individual men and women and there are families. People must look after themselves first' (Thatcher, 1987).

But in a pandemic such as that of Covid-19, and the collapse of markets and jobs, neither individuals nor families readily can 'look after themselves' alone. Nor can do so in countering impending climate breakdown, nor the prospect of mass unemployment with the onset of artificial intelligence and robotics such as Frey and Osborne (2018) have forecast could replace half the jobs in the US within twenty years, with similar potential job loss in Europe. These threaten disintegration of societies whose very existence Thatcher denied (Oliveira & Holland, 2020).

In Europe, even before the outbreak of the Covid-19 contagion, austerity responses to the financial crisis of 2008, which was the outcome of computer modelled speculation in toxic derivatives, had generated disillusion with the postwar project for 'ever closer union'. As reflected, but not only, in the Brexit vote in the UK (Varoufakis, 2018; Etzioni, 2018; Habermas, 2018). In a management forum of The Academy of Management Review Anderson, Barney, Henderson, Meyer and Rangan (2018) recognised that inequities such as compensating bankers for financial folly, and gross inequalities in wealth, had generated not only disillusion with miscreant capitalists but also increasing disillusion with capitalism.

2. List and After

In claiming to 'roll back the frontiers of the State' both Ronald Reagan and Margaret Thatcher displaced that it had been vital to the emergence of the market economies over which they by then presided, and lauded.

As classically evidenced by Friedrich List in his 1841 National System of Political Economy. In which, influenced by Hamiltonian tariffs in the US, he recognised that protection had been crucial for infant industries in the former British colonies to avoid competition from those nations which already were more advanced, such as Britain, and which also was highly influential in the creation by German states in 1834, even before their political unification, of their Zollverein customs union.

List also had stressed the role of the State in not only protecting but also directly financing both infant industries and infrastructure. As chronicled by Callender, after independence new manufactures were both started and funded by states such as those of Massachusetts and New England. As were the canals that pierced the Appalachians and connected the eastern coast with the Great Lakes and the mid-West. While the railways that then connected both coasts were indirectly supported by the land grants from the federal government (Callender, 1902; Holland, 1976a).

The role of the State in the emergence of modern capitalism also was evidenced by Karl Polanyi in his 1944 *The Great Transformation* which showed that not only, Germany, France, Italy, Japan as well as the US protected their nascent industries, but that even the UK had done so for the woollen and textile industry which became the basis of its own industrial revolution. While Ha-Joon Chang (2002) also has drawn on List's case that when a country or region, such as the Zollverein, had industrialised it could 'kick away the ladder' of tariffs designed to prohibit imports and support the case for other states to reduce theirs.

While, although List had seen himself as contesting the case for free trade in Adam Smith, it has been widely overlooked that even in Smith's once only reference to an 'invisible hand' in his *Wealth of Nations* this was in a chapter on Restraints on Importation of Goods in which he recognised the right of a nation to protect itself in the event that foreign trade was destroying its manufactures (Smith, 1776, Bk IV, chapter II).

3. The State and Innovation: Japan

A symbiosis between big business and the State was vital for Japan's emergence as a modern economy from the onset of the Meiji period. As well as to its re-emergence after WW2 from an economy in which industry from the 1930s had been almost wholly geared to armaments production to one of the most commercially competitive in the world. Initially this was through heavy industry grouped in the conglomerate Keiretsu by which the former monopolistic Zaibatsu, such as Mitsubishi had been rebranded.

For over twenty years this had been highly successful. But when both Japan and the West were hit by the OPEC quadrupling of oil prices in September 1973, and rather by cutting domestic demand, the Japanese Ministry of International Trade and Industry, MITI, invited all leading firms to a dialogue on what product or process ideas their research departments had in mind for ten years or more in advance, and where possible to bring them forward in an explicit strategy of 'accelerated innovation' (Johnson, 1982; Okimoto, 1989).

As an outcome, brokered by dialogue through MITI, Kawasaki Steel entered joint ventures with other companies in electronics (Okimoto, 1989). Hitachi shifted a large number of its employees from power generation and electrical equipment into communications equipment and electronics. The Nippon Electric Company NEC consciously shifted its focus, and employees, from an earlier reliance on government as a customer to sales to private sector business. Other manufacturing firms ventured into services. In such cases they diversified production, markets and jobs, but kept employment constant (Ohmae, 1985).

The Japanese thereby came close to Schumpeter's (1949) claim that product and process innovation can be a value-creating factor in production. The dialogue with MITI both synergised new inter-firm linkages and innovation and diversification. Such a symbiosis differed markedly with responses in Europe to the 1973 OPEC price hikes, when most governments put the brakes on domestic spending and investment to slow demand and reduce overall imports in order to make space for the higher cost of imported oil. Few deepened dialogue with leading firms on the degree to which they could reduce costs and increase competitiveness by either process or product innovation. Although France was to be an exception.

4. Beyond Indicative Planning: France

France between the two world wars was planning next to nothing major other than the Maginot Line which was at vast cost but, as well known, simply was by-passed by Germany in attacking her through the Ardennes. She also was gripped by what

Jacques Delors (1978) had described as Malthusianism in the sense that many to most of its business leaders were convinced that there were 'natural' limits to what the French economy could achieve and that to transgress them would be folly. It took from the end of WW1 to the Crash of 1929 for France to recover the output levels she had achieved in 1913, and then from 1930 to 1939 to recover these again.

Postwar, in France, this changed, with a commitment to innovation on a vast scale, across firms and sectors. Which was the achievement of Charles De Gaulle in his initial, if brief, 1946 government in establishing a planning commission, the Commissariat du Plan, with strong and sustained support from the French Ministry of Economy and Finance,

Both before and after De Gaulle regained power in 1958, the Plan was committed to wide ranging innovative projects. They included the Aérospatiale programme and its especially costly Diamant satellite and weapons ballistic missile whose development then became the basis of Plan Calcul which was a national programme aiming to put a computer in every classroom forty years before this became an aim of the European Union's 2000 Lisbon Agenda, thereby providing an internal market for the French computer company Machines Bull. Force de Frappe which was the supersonic nuclear bomber programme which funded both Dassault and the French jet engine company Snecma.

The plan sponsored the centrales nucléaires nuclear power generating programme which aimed to make France self-sufficient in electricity generation by 1990, which she achieved, and the TGV high speed train or Train à Grande Vitesse. As well as the supersonic civilian Concorde which, although it never covered its initial costs - not least because the US Federal Aviation Authority refused it access to East Coast airspace, nonetheless enabled development of Toulouse as an advanced aerospace technopôle which later was to play a key role in the European Airbus project which was to break what hitherto had been Boeing's virtual monopoly of jet civil aircraft (Cohen, 2007).

From the start, and as implied by the above, the Commissariat au Plan not only deployed what became known as Indicative Planning – setting medium term targets to encourage enterprise in general to sustain investment programmes. Moreover, the Commissariat from the mid-1960s dealt directly with leading firms through *contrats de programme* or planning agreements by which, if leading private sector firms were beneficiaries either from public spending or public *contrats*, they needed to offer collateral public gains such as undertaking long-term research or locating new investments in less developed regions, or both (Holland, 1975).

5. Italy's State Entrepreneurship

Italy from the 1930s developed models of state entrepreneurship almost by accident in two notable public holding companies. The Industrial Reconstruction Institute IRI and the National Hydrocarbons Institute ENI.

IRI was formed in 1933 when Mussolini as Duce was faced with the threatened collapse of the three major Italian private sector banks which, on the German banking model, had extensive shareholdings in industrial and service companies. Realising the risk to his regime he called on a non-fascist – ironically but appropriately called Beneduce – who had introduced social insurance to Italy before WW1, to manage

them. Beneduce accepted that IRI was expected to fulfil certain tasks of strategic national importance, such as development of Italy's southern Mezzogiorno but on condition that he and only he interfaced with either Mussolini or other government ministers thereby assuring him – and IRI – relative operating autonomy. He also insisted that while the government had to assure IRI a substantial endowment fund, the returns IRI would make on this would be in kind – by results – rather than in cash.

IRI has achieved a series of such returns in kind from then until today. Its financial subsidiary in engineering Finmeccanica hardly made a profit in years but from some 30.000 employees in 1933 now has over 60.000, including those in the UK of the Westland helicopter corporation (FINMY, 2020). It enabled the postwar Italian government to countervail foreign takeovers of Italian firms. Such as the bid by American multinationals to take over the Motta and Cirio food processing companies and supply them with produce from Israel, whereas within the IRI holding they could process agricultural output from the Mezzogiorno (Holland, 1972).

Whereas also virtually no major private sector Italian company was prepared to invest in the Mezzogiorno, IRI expanded Alfa Romeo from a minor elite motor manufacturer into a major auto producer with a plant at Pomigliano d'Arco near Naples and building up local southern component suppliers so that 80% of its components, and its steel – from IRI's new Italsider Taranto plant in the heel of the South – came from the Mezzogiorno. Which contrasted with Britain's parallel concern to bring motor manufacturing to Scotland in its Linwood plant near Glasgow, in which 80% of its components came from Coventry or Birmingham (Holland, 1974).

ENI's success under its remarkable 'State entrepreneur' Enrico Mattei was equally impressive. Mattei has been charged by the postwar Italian government to wind down an effort by Mussolini to find and exploit natural gas in the Po Valley. But, on confirming that there was little to none, Mattei transformed the former exploratory company AGIP into the Ente Nazionale Idrocarburi ENI as a publicly owned and managed multinational challenging the dominance of global oil and gas by the 'Seven Sisters' of the American, British and Anglo-Dutch giants.

He did so by offering both exploration and their potential refining to developing countries. While granting them 80% of the revenues that this generated rather than the 20% which, at the time, was the routine concession offered by the Seven Sisters to such countries. This was such a success that ENI expanded its operations to some 66 countries, with a peak of over 70.000 employees (ENI, 2020). It also had developed photovoltaic panel and its own super-computer capacity, jointly with MIT, to assist its exploratory ventures. And located major plant in the Italian Mezzogiorno. For which Mattei challenged vested Mafia and other interest in the South which led to nothing less than his murder in a sabotaged aircraft in 1962 (Celani, 1995). But which did not stop the example that he had set in State entrepreneurship, with ENI advancing to become one of the most successful of global State enterprises.

6. Adopting – and Renouncing – Industrial Strategy: the UK

One of the problems from reliance on Keynesian monetary and fiscal policy in postwar Britain had been what became known as 'stop-go' – or more rightly were 'go-stop' cycles – which were confounded by the different time periods for

consumers to respond to lower interest rates or taxes and enterprise to respond, if at all, in terms of investment. In 1962 the Conservative government of Harold Macmillan therefore introduced a National Economic Development Council whose aim was to improve economic co-ordination between companies and policy-makers, and thus enable Britain to steer a course away from 'stop-go' and towards stable growth.

This had been modelled on the presumed success of postwar Modernisation Commissions and of indicative planning in France. But success was elusive. In its working groups the government outlined potential for expansion. But leading industrialists who considered it a vehicle for increasing their influence over the course of economic policy adopted a wait-and-see response to its indicative targets (Holland, 1972, chapter 1).

The outcome was sector talk-shops rather than work-shops. The incoming Labour government in 1964 aimed to do better by adopting a more comprehensive indicative National Plan, established by a new Department of Economic Affairs, introduced in 1965. But this hardly did so. With a deteriorating trade balance, there was major speculation against sterling in July 1966 on which Harold Wilson as prime minister decided on deflation rather than devaluation, which doomed the expansionary targets of the Plan and did not prevent a major devaluation of sterling in November 1967.

The Costs of Renouncing Industrial Strategy

Rolling Back the State in the UK under the Thatcher and Blair governments rejected allegedly outdated industrial strategies in favour of a neoliberal trust in markets. The outcome was de-industrialisation.

- Manufacturing employment in the UK fell from 7 million in 1979 to 2.7 million in 2017 and from 27% to 8% of total employment.
- With only a few exceptions large British-headquartered manufacturing firms such as the former GEC in engineering and ICI in chemicals are next to extinct. Where there still is a motor industry in Britain it either is Japanese, or – in the case of the Mini or Rover – controlled by BMW or Tata. The former Westland helicopter company now is a subsidiary of Italy's state holding company Finmeccanica. The survival of civil aviation production is mainly due to one company – Rolls-Royce – and partnership of British Aerospace in the EU consortium Airbus.
- By the time of the subprime crisis and before ongoing austerity policies by the incoming Conservative-Liberal coalition government in 2010 there were only 2,000 factories with more than 200 workers. These were mainly in foreign owned firms. They accounted for one-third of UK manufacturing employment but had limited ambitions for future investment in the UK even before the Brexit referendum.
- Three quarters of manufacturing employment is now in workshop establishments employing 10 or less workers.
- These lack integrated supply chains, with firms vulnerable to the sourcing decisions of overseas multinationals.
- They also lack joint innovation trajectories with other global firms and thus are behind rather than ahead of a global innovation frontier.

Source: UNCTAD and UK Office of National Statistics, 2017; House of Commons Briefing Paper Manufacturing: Statistics and Policy 2018.

In the interim, while still a graduate student, I had been co-opted onto a working group in the Department of Economic Affairs to help draft the chapter on Regional Policy for the National Plan and was appalled at the lack of understanding in the

department, and in the Treasury, of how regional planning Italy, or France, or Belgium was not merely indicative or incentive based rather than through Regional Development Agencies and planning agreements directly negotiating in less developed areas – *contrattazione programmata* in Italy, *contrats de programme* in France and *contrats de progress* in Belgium. As well, as already outlined, in Italy, a major regional role for State Holding Companies such as the Industrial Reconstruction Institute IRI and the National Hydrocarbons Agency ENI.

Whereas there still was a Keynesian macro mind set in the Treasury, epitomised by Nicholas Kaldor, adviser to the then Chancellor of the Exchequer Jim Callaghan, who persuaded him to introduce a Selective Employment Tax which would be rebated for firms in the regions with the aim of giving them thereby a competitive advantage through the equivalent of an internal devaluation. Which did not work because these mainly were affiliates or subsidiaries of national or multinational companies which did not allow them to follow the tax rebate with lower prices since this would have been to compete against themselves elsewhere in the UK, or abroad (Holland, 2017).

After the defeat of the Labour government in 1970, such arguments became known to the National Executive of the Labour Party which invited me to draft the case for a State Holding Company modelled on the Italian IRI – the National Enterprise Board. As well as the case for Regional Development Agencies for Scotland, Wales and Northern Ireland and Planning Agreements with leading firms modelled on their success in Italy, France and Belgium. But which I advocated should be tripartite, including government, management and trades unions in their negotiation, rather than only bipartite deals between government and the management of leading companies. Tony Benn, as Secretary of State for Industry in the incoming Labour government in 1974 then invited me to draft the legislation for them (Holland, 1976b).

In practice Planning Agreements did not get off the ground, other than one that Tony promoted with the National Coal Board and the miners' union NUM. Since, although their design aim, modelled on *contrats de programme* in France, and had been that if leading firms wanted either government grants or *contrats* they should negotiate collateral outcomes, such as commitments to locate more investment, jobs and research in the regions, Harold Wilson made them merely voluntary, which ensured that no leading private sector firm opted for them (Holland, 1976b).

But the National Enterprise Board – NEB – was set up, with what the time was a significant budget line of £1 billion, and was a considerable success. One of its first roles was to take over Rolls Royce and British Leyland. When brought into the NEB Rolls directly or indirectly employed 80,000 people and was Britain's 14th largest company in terms of personnel. It had pioneered carbon fibre rather than aluminium for the fans of its RB211 jet engines, which had failed when birds destroyed them in tests. Lacking cash flow, and unable to gain stock market finance for further development of them, the company had been nationalised in a one clause bill by the Heath Government. Brought into the NEB it gained the needed long-term funding for further development of the RB211 which proved highly successful for decades thereafter.

The British Leyland vehicles group by the 1970s was Britain's largest manufacturing exporter with over 170,000 employees and as many again in its supplier components and other supplier firms (HoC, 1978). But it needed radical

restructuring since it had been the serendipity outcome of series of mergers of formerly independent British vehicle producers, such as Austin, Morris, Rover and Leyland itself. For which it could not gain either stock market conviction or finance. It also needed to learn from Japanese kaizen style continuous improvement and economies of scope rather than only scale. But did so under an NEB sponsored joint venture with Honda. Then, after abolition of the NEB by Thatcher, in 1994 it was bought out by BMW. Which revamped its iconic Mini with great success. But for which most of its components then came from Germany rather than, as before, from the British Midlands.

The NEB also supported advanced technology such as in International Computers – ICL – a company formed in 1968 to create a British computer industry that could compete with major world manufacturers. It sponsored a joint venture between ICL and Fujitsu for which ICL at the time was an equal partner. But after Margaret Thatcher gelded the NEB on winning the 1979 general election, stripping its funding and replacing it with a so-called British Technology Group, ICL succumbed to a total takeover by Fujitsu and disappeared as a British company (Jowett, 2017).

As did Sinclair Electronics. In 1966 the British entrepreneur Clive Sinclair invented the world's first pocket television. In 1972 he marketed the world's first pocket calculator. In the 1980s he entered the personal computer market and his 1982 the ZX Spectrum was released, becoming Britain's best-selling computer, with 40% of the UK market. On coming into office in 1979, Margaret Thatcher persuaded the Queen to grant him a knighthood, but cut finance for him by abolishing the National Enterprise Board which had funded his most innovative long-term initiatives which stock market demanding short term returns had disdained. With the outcome that, by 1984, Sir Clive's initially highly successful ventures in the UK had collapsed (BCS, 2020).

7. Displaced French Lessons: New Labour

Much of the comment in the British press since the government salvaged banks following the 2008 financial crisis had been that no one by then knew anything about how the State could run a business. It was only in 2009 that one of the chief architects of New Labour, Business Secretary Peter Mandelson, realised that France offered a model. Observing that 'we have always assumed the supply side would take care of itself', which Labour in its economic programmes from 1972 to 1982 had not (Renewal, 2017).

Mandelson observed after meeting French business leaders that:

'We have something to learn from continental practice [...] We are not talking about public ownership, nor are we talking about centralised planning'.

Dissociating himself from this, he nonetheless recognised that France was better at setting strategic goals and objectives, citing examples such as nuclear energy, high speed rail transport and aerospace (Hollinger, 2009).

This was a late learning up from French lessons on planning, but only partial. For public ownership has been central to the success of France in the sectors of nuclear energy, high speed rail transport and aerospace which Mandelson had identified sectors embodying good French practice but without apparently even being aware of this. The State also has been crucial to its being able to take a longer term view of

investments, and sustaining commitment to them, than stock markets. In the 1950s it set its publicly owned Electricité de France the target of gaining four fifths of national energy through nuclear power, and achieved it without a Three Mile Island meltdown. It was through its publicly owned SCNF that it achieved its very high speed TGV national rail system, now in its second generation, as did Japan decades ago with its high speed bullet train, whereas the UK only now, after more than a decade of indecision, is committing to the construction of a dedicated a partial high speed rail link between London and Leeds (HS2).

Without long-term public finance in sustaining Concorde, despite it never covering its development costs, France would not have retained the advanced engineering capacity in aircraft through that made the European consortium of Airbus possible. It was not ‘market forces’ that challenged Boeing’s monopoly in civilian jet aircraft but Airbus Industrie which was jointly owned by governments. A cleaner, quieter and larger Concorde 2 could have been viable if Britain had not refused the offer of a joint venture in the 1960s to develop it. Britain abandoned its Blue Streak aerospace launcher and pulled out of the European launcher development organisation ELDO. France’s continued commitment to its Diamant launcher was the basis of its later Ariane and the European aerospace programme. By contrast with the TGV rail network in France, Britain has privatised its railways with the outcome that it is one of the slowest, least efficient and most expensive for what used to be known as travellers, but thereafter, in market rather than public service logic, were deemed to be ‘customers’ and still has not managed even to undertake a high speed rail network between London and the Midlands (HS2, 2020).

Also, while praising French industrial strategy, Lord Mandelson at the time was proposing to privatise the British Post Office, apparently oblivious that a key to the success of planning in France has been that its publicly owned postal savings bank, the Caisse des Dépôts et Consignations, has for decades assured a long-term supply of savings for productive public investments in the private sector. He also displaced that Labour’s election manifestoes in 1974, when it won two elections, had proposed planning agreements modelled on those of France as a condition of public money in private sector big business, whether this was through grants to them, or public purchasing from them (Holland, 1976b).

8. Strategy by Stealth: The US

Wars, whether hot or cold, can promote innovation. The forerunners of later US Cruise missiles, the V1 rocket, and of the USApollo programme, the ballistic missile V2, were developed by Germany during WW2. Jet aircraft were so by both Germany and Britain. Alan Turing and others innovated the first practical computer early during the war which broke the allegedly unbreakable German Enigma codes. While the Manhattan Project introduced nuclear weapons.

But while this is well enough known, Mazzucato (2011) drawing also on Block (2007) and Block and Keller (2011), has evidenced a shift from the 1960s in US military spending away from giant projects directly concerning defence to the sponsorship of civilian high tech start-ups by small innovating firms. For example, a result of the shock to the American establishment from the launch of Sputnik in 1957 was the creation of the Defense Advanced Research Projects Agency – DARPA

– in 1958. Before the formation of DARPA the military was the sole controller of all military spending and had kept it ‘in house’.

DARPA contributed to the creation of the internet, Google’s algorithm, civil applications of GPS, new technologies vital for the success for a range of the key technologies that fostered the success of Apple and Google including no less than Google’s algorithm, touchscreen display technology and 13 of the key components of the iPhone. As well as the creation of nanotechnology and the development of ‘orphan drugs’ that enabled firms such as Genzyme, Biogen, Amgen and Genentech to become major corporations in biopharmaceuticals. Rather than ‘crowding out’ the private sector, as asserted by Friedman (1969), such public expenditure ‘crowded in’ a host of new private sector players and created ‘entirely new’ sectors of activity (Mazzucato, 2011).

9. Late Learning Up: Germany

In Germany after WW2 there was not only disdain for but outright opposition to either planning or industrial strategy not least since Hitler had endorsed both. What was in favour for Ordoliberalism in the sense of regulation of big business and a Kartellgesetz to limit and control the cartels that had provided him with a willing military-industrial complex several decades before Dwight Eisenhower, in his last presidential address, deployed the term.

In view of this, it could well have appeared surprising that, in September 2018, Annegret Kramp-Karrenbauer, the chair of the Christian Democratic Union, had announced a ‘real paradigm shift’ in support for a European industrial policy (Fuldainfo, 2018; The Financial Times, 2018).

In line with which, in February 2019 the CDU economics minister, Peter Altmaier called for the creation of European ‘industrial champions’, outlining also an ‘Industrial Strategy 2030’ for Germany. Submitting that the long-term survival of German champions such as Siemens, Thyssen-Krupp, the German automobile manufacturers – and the Deutsche Bank – was in the national political and economic interest.

And that, in the context of foreign takeovers of German companies, ‘in very important cases’ the State itself should become active by acquiring shares them. While also similar direct State participation was needed and would be justified for the federal government to gain public accountability of emerging platform economies and artificial intelligence.

His immediate rationale was a reaction to the blocking of a merger between France’s Alstom and Germany’s Siemens by the Competition Directorate General of the EU Commission. But he also justified the case for a European industrial strategy in terms of outward investment by German and European companies both in the US and, especially, in China where the joint ventures that they were undertaking had meant technology transfer to - mainly State funded or owned and controlled - Chinese firms, without reciprocal gain rather than non-renewal of the joint ventures once the technology has been transferred. He also proposed setting up a European Council of industrial ministers and raising industry’s share in the EU economy to 20%. With, among other aims, that the Mittelstand (small and medium-sized enterprises) should

be strengthened and there should be heavy investment in artificial intelligence (Schulz, 2019).

Granted the ongoing hold of Ordoliberalismus in German academia and policy making hitherto, the reaction of German economists and business associations was at best sceptical and otherwise near unanimously negative (Bofinger, 2019). Even within Altmeir's own Industry and Environment Ministry, prompting leading members of his official advisory group to publish an open letter of protest in which they claimed that the famed technological advances of Silicon Valley and the creation of world renowned companies such as Apple and Google 'owed precisely nothing to the State' (BMW, 2019).

Which combined both anger and ignorance. Granted that, as already cited, a range of the key technologies that fostered the success of Apple and Google - including Google's algorithm - had been both funded and developed in the US by the federal DARPA programmes.

10. What Now?

If there is to be a European industrial policy on the lines advocated by Annegret Kramp-Karrenbauer and Peter Altmeir, it will need to take account of events that followed their proposals within only months. Such as impact of Covid-19 by which, in Germany alone, by the summer of 2020, more than 750,000 companies had put over 12 million employees on reduced working hours (Kurzarbeit), dwarfing the 3 million hit by the 2008 crisis while the IMF in its 2020 Spring Economic Outlook predicted a fall of 10 per cent in GDP in Europe as a whole (SPData, 2020).

With risks that neither of them, only months earlier, could have foreseen. Such as that a European industrial policy could simply be a salvage operation aiming to recover what was, rather than able to fulfil the ambition of the Commission and Council for a European a Green New Deal (Dräger, 2020). And risk prioritising big business shareholder value such as stock buy-backs rather than wider social wellbeing (Gömeç & Sakinç 2020). Despite Peter Altmeier in his proposals for a European Industrial Policy having stressed the importance of reinforcing the viability of European small and medium firms or what, in Germany, since WW2, have been policies for their Mittelstand.

With such a risk evident in the US, where the federal government has planned to lend \$500 billion to large companies but without requiring them either to preserve jobs or limit executive pay and thus exempting them from conditions that Congress hitherto had placed on companies seeking financial help under other programmes (Stein & Whoriskey, 2020).

Which supports the case for conditionality not in the negative sense of the austerity conditions for financial assistance such as imposed on smaller and weaker EU member states by unelected Troikas of the IMF, the ECB and the Commission (Varoufakis, 2018) but 'positive conditionality' for big business currently in financial difficulties and needing public support to commit to carbon reduction and stakeholder rather than only shareholder value in future investments.

Which should distinguish between meso and micro enterprise. Where meso big business (Gk: mesos - intermediate) is between micro small and medium firms and macro aggregates yet, unlike SMEs, dominates the latter (Holland & Black, 2018).

As in Germany in 2019 where companies with more than 250 employees were only 0.7 per cent of total enterprise but employed 39 per cent of the registered workforce and had undertaken 57 per cent of corporate investment (DW Statis, 2020).

Support for such bigger - and often multinational - business should be conditional on specific outcomes, as had been the case in the earlier French experience of *contrats de programme* or planning agreements. Yet without the presumption of Hayek that any State intervention would be the road to serfdom. In that only they, rather than ninety-nine per cent of enterprise, would be subject to direct conditionality rather than general environmental and social legislation. While accountability of support for SMEs could be delegated to national and regional or local levels where member states either already have a devolved federal structure, as in Germany, or have regional or local development agencies.

Which does not of itself address the question of impending technological unemployment from AI and robotics that, not only in terms of the macro forecasts such as by Frey and Osborne (2018) that these could lose up to half of jobs in the US within two decades, with similar risk of technological unemployment in Europe, but which also have major implications for specific risk prone regions and localities (Dignam, 2020; Kenney & Zysman, 2020; Acemoglu & Restrepo, 2020). Reinforcing what François Perroux and Gunnar Myrdal earlier had analysed as polarisation and circular and cumulative causation (Perroux, 1950, 1955; 1961; Myrdal, 1957; Meardon, 2001).

11. Realising Latent Demand

As Acemoglu and Restrepo (2020) have submitted, the current tendency is to develop AI in the direction of further automation, but this might mean missing out on the promise of the 'right' kind of AI, with better economic and social outcomes. With wider implications for both the theory and practice of governance. Such as the case for recognising the merits of Keynes' case in the 1930s for promoting effective demand but also recognising its limits now. Since only recovering demand to its pre-Covid levels would not address either medium-term challenges from AI and robotics, nor the more imminent risk of climate breakdown. With, also, the need to gain not only a paradigm shift in favour of a European industrial policy, as submitted by Annegret Kramp-Karrenbauer but also a paradigm shift from stressing effective demand to recognising and realising latent demand.

Such as demand which has not yet been met, for better quality in health, education, social services for the young, the elderly and others in need. As well as for protection and enhancement of the environment, not only in the sense of reducing carbon but regenerating cities, where rehabilitation and insulation of housing and other buildings, rather than replacing them, is highly labour intensive- With also concern for promoting leisure facilities and the arts, shorter working time, and better work-life balance (Holland, 2016).

Which implies more labour intensive employment in social domains such as more teachers and smaller class sizes at all levels of education – pre-school, primary, secondary and higher; more health workers, more personalised care in health and shorter waiting lists for both diagnosis and treatment; more frequent low and zero emission public transport. All of which, in the European Union, was recommended

by the European Council of EU heads of state and government in the Lisbon Agenda 2000 and of which co-financing – without this counting on national debt – is available from the non-profit European Investment Bank – already bigger than the World Bank (Varoufakis & Holland, 2011).

12. Both Efficient Economies and Efficient Societies

Which also implies a shift from prioritising concern only with market values to recognising the centrality of human value to both economies and societies (Oliveira & Holland, 2012) and from concern only efficient economies to achieving efficient societies. For a society is not efficient if it allows banks and hedge funds to speculate in toxic financial derivatives and destroy peoples' savings and homes. It is not efficient if it cannot respond to the threat of climate breakdown. It is not efficient if it tolerates that up to half its people may lose their jobs through the impact of artificial intelligence and robotics without recourse to other employment.

Which has conceptual implications for inverting the concept of productivity in social rather than commercial services. Rather than more output per employee, there can and should be more employees per service in domains such as health, education and social services. Enabling smaller classes at all levels of education, shorter waiting lists for diagnosis and treatment in health and more personalised care for those in need, not only in the current context of social exclusion due to Covid-19, but also for the elderly in ageing populations (Oliveira & Holland, 2017).

- An efficient economy is concerned with market innovation. An efficient society is concerned with social innovation.
- An efficient economy will meet consumer preferences. An efficient society will meet social preferences, such as for better health, education, the quality of life and safeguarding the environment.
- An efficient economy counters unemployment by effective demand. An efficient society will match latent social demand with effective supply.
- An efficient economy can disregard either cyclical or technological unemployment. An efficient society will be concerned with both full and socially useful employment;
- An efficient economy is concerned with more output per employee. An efficient society will recognise that not everyone in an economy has to be efficient or hyper-efficient by the highest standards in market domains. Part of an economy may be so and sustain the rest well at high levels of employment.

Japan is an indicator of the last point, in which less than a seventh of its employment has been in hyper-efficient industrial groups, with commitment to the kaizen of continuous improvement in methods of work organisation to raise productivity (Colenso, 2000). The rest of the economy has low productivity in both agriculture and services, yet is socially efficient in the sense of assuring employment, income and a high degree of social cohesion (Dore, 1986, Moriguchi & Ono, 2004).

With implications for institutional and inter-institutional learning and management in terms of current proposals for a European industrial policy or strategy. Such as that in the 1930's US New Deal Roosevelt's Labour Secretary Frances Perkins insisted that there should be a social dimension to the National Industrial Recovery Act with close liaison between its office and her own. While the NIR had to liaise

closely with the environmental programmes of the Civil Conservation Corps and the TVA Tennessee Valley Authority (Schlesinger, 1958). While the TVA not only brought flood control and electrification to Deep South states in the US, but also strengthened local authority powers – and social cooperatives – within them.

Which also should be the case in an inter-institutional framework to assure that Europe not only retains an industrial capacity but also is able to assure economic, social and political cohesion. Such as not only effective coordination between directorates general of the Commission, but also – on a tripartite basis – their liaison with and accountability to the European Parliament, the Economic and Social Committee, representing both employers and trades unions, and the European Council of heads of state and government.

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