

Managing Institutional Setups for Industrial Policy: an Overview of the EQUIP Modul

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Structure of the presentation

1. Introduction & research questions
2. Literature review on institutions of industrial policy (IP)
3. Theoretical framework
4. Institutional setup-typology & trade-offs
5. Conclusion

1. Background of the paper/project

- GIZ/BMZ and UNIDO financed the project ,**Enhancing the Quality of Industrial Policy**‘ (EQulP)
- Goal: **support policy makers** in the global periphery to formulate and design industrial policy strategies for inclusive and sustainable development → toolboxes
- Website (<http://www.equip-project.org/>) provides 9 ,toolboxes‘ on different topics
- The **toolbox on Institutional Setups** (developed by ÖFSE), develops a methodology in the form of a **manual for the selection of a country-specific institutional setup**

1. Key questions

1. What are the **necessary institutional preconditions for an effective and inclusive industrial policy (IP) regime?**
2. Which **‘policy options’** regarding the institutional setup of IP exist?
3. What are the **trade-offs** within and between specific institutional setups?

→ We argue that a political-economy approach to analyze state-society relations and the institutional setups is necessary

2. Literature review – developmental state (DS) literature

- Key paradigm in heterodox economics on institutions of industrial policy (IP)
- **Development state (DS) literature: political & economic school** (Fine 2013)
 - Economic school: Which IP are effective?
 - Political school: What are the necessary state structures for effective IP?
- **Heterogenous literature** (cf. Routley 2012)
 - No consensus on what constitutes a DS, but agreement that the **state needs to be free of capture by particular interests**
 - Influenced by **Weberian perspectives** on the state and state bureaucracy
 - Key concept is **'embedded autonomy'** (Evans 1995), which emphasizes the importance of a capable bureaucracy that is **autonomous from capitalists interests** and ***embedded in the private sector***
- **Critique on DS → approaches with different focus/conceptualizations emerged**

2. State-business relations (SBR) approach

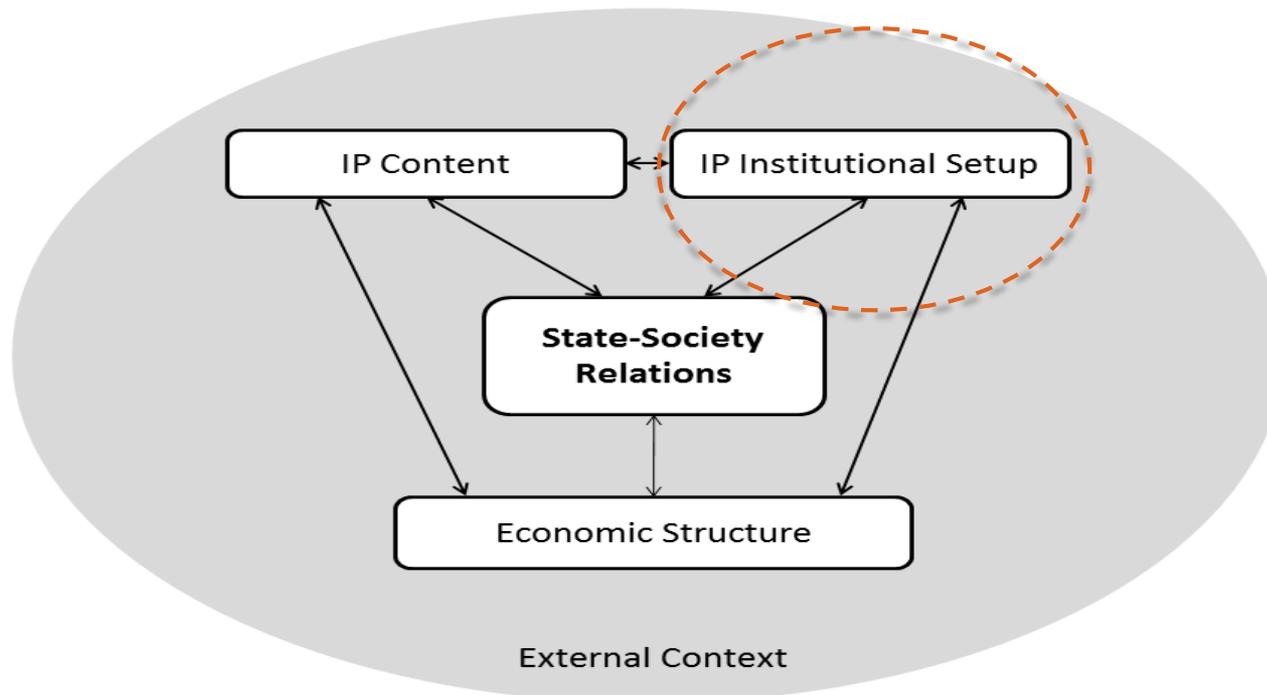
- **State-business relations approach** (loosely affiliated body of literature): DS literature focuses too much on the state bureaucracy and pays little attention on the private sector
 - Bowie 1991; Donor, 1991, 1992; MacIntyre 1994; Maxfield and Schneider 1997; Donor and Schneider, 2000; Donor, Ritchie and Slater, 2005; Sen and Velde, 2009; Seekings and Nattrass, 2011
- **Focus on subnational units of analysis**, such as the political elite, ruling coalitions/networks, capabilities and capacities of firms, and business-state/bureaucrats relations
- **Literature highlights ...**
 - the **problem of unproductive rent-seeking behavior** of the political and economic elite
 - **need for collaborative relations** between the political elite, (industrial) businesses and bureaucrats to promote industrial investments and economic growth
- Structural dimensions that limit effective IP are often not considered

2. Developmental state, or developmental regime [DR]?

- **Critique on DS:** little attention on broader civil society actors; lack of class analysis; sympathetic towards authoritarianism ...
- Pempel (1999) and Wlyde (2017) argue that the developmental state should be understood as a **developmental regime**, which “[...] involves a sustained fusion among the institutions of the state, particular segments of the socioeconomic order, and a particular bias in public policy orientation” (Pempel, 1999: 157)
- The developmental regime approach is **based on a neo-Gramscian perspective and materialistic state theory**, which
 - Broadens the perspective on civil society actors beyond the private sector
 - Emphasizes the role of ‘hegemony’ to potentially establish a more inclusive ‘developmental regime’

3. Assessment Framework – a graphical representation

- Framework combines concepts of DS, DR and SBR approaches
- Materialistic state theory and neo-Gramscian conceptualization the state builds foundation of our framework

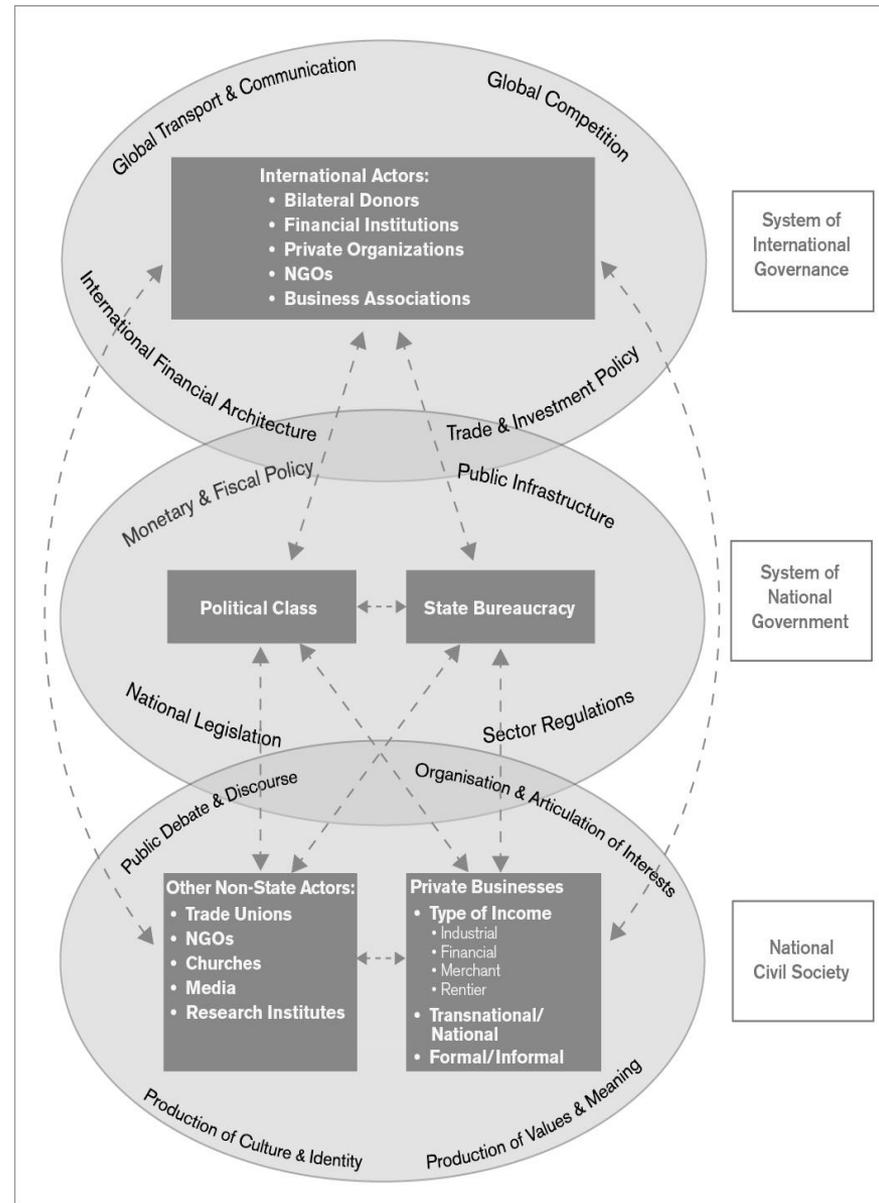


3. State-Society Relations

Five social actors:

- (1) Political class
- (2) State bureaucracy
- (3) Capitalist class
- (4) Other non-state actors
- (5) International Actors

→ We want to stress different interests and roles of social forces



3. Two key questions

1. How does industrial policy become a priority of the state?
2. How can industrial policy be implemented effectively?

3. IP priority of the state?

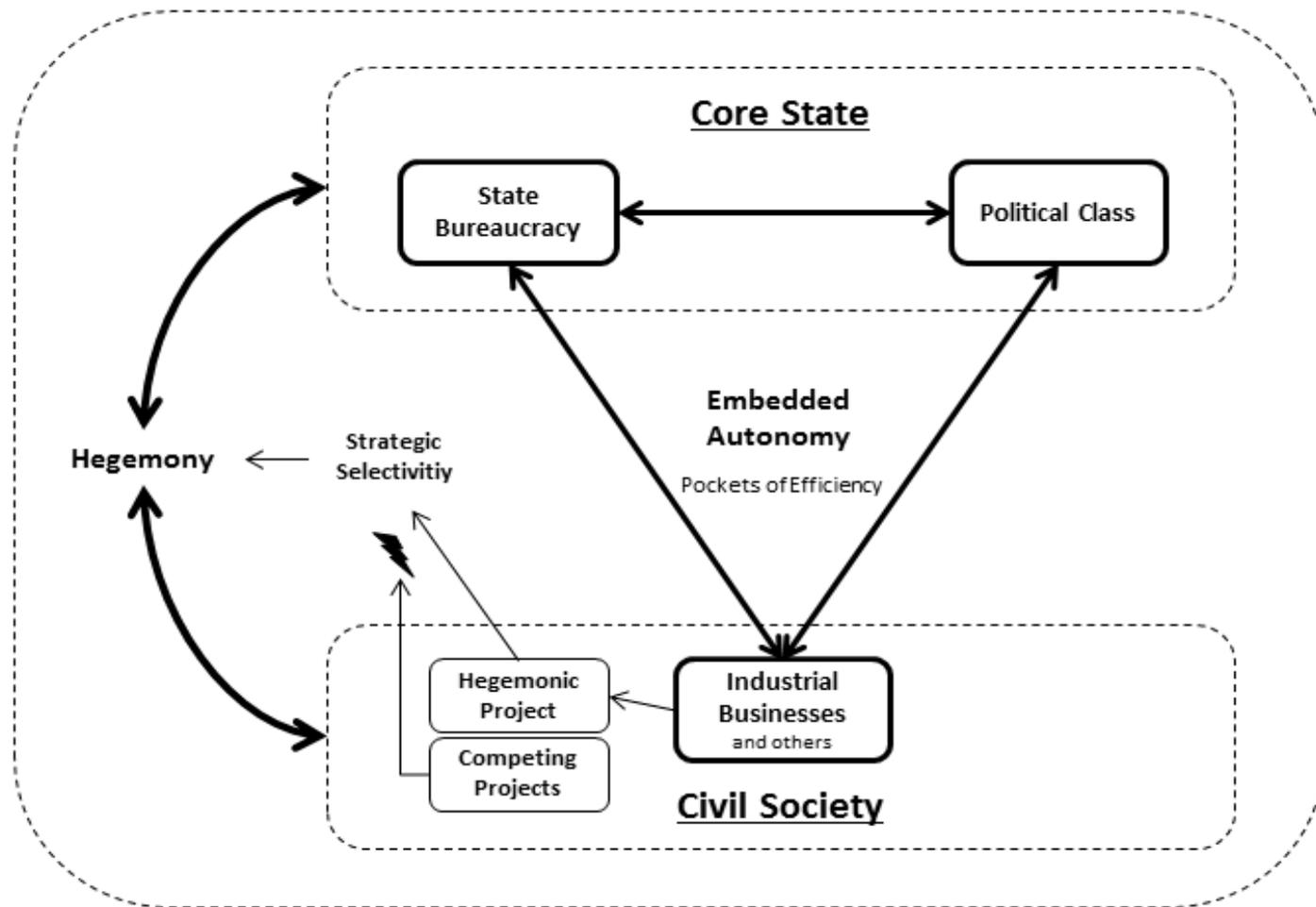
- Materialistic perspective: state is understood as a **materialistic condensation of a relationship of force** (Poulantzas 2002) → power relations are outcome of past class struggle
- In order for industrial policies to be at the agenda of the state, **social forces (i.e. industrial capitalists) with interest in industrial policies need access to state power**
- Access to state power depends on the **strategic selectivity** of the state (Jessop 1999), that is, *how a given state structure privileges or excludes some actors and social groups to enforce their materialistic interest.*
- Enforcement of industrial policy can be based on **coercion**, or some sort of **hegemony** that is conducive for industrial policies

3. Hegemony

- **Hegemony** is a set of beliefs, values and social and cultural norms that are accepted by a majority of the citizens as legitimate principles of society underpinned by material compromises (Gramsci Gefängnishefte)
 - *Hegemony armoured with coercion* → *Ideology + materialist concessions*
- **Necessary** to establish a **democratic/inclusive developmental regime** → a **hegemonic project** (Jessop 1984) in favor of industrial policy
- **Hegemony for IP**, however, has been **rarely established** in the global periphery (Evers 1977; Becker 2008)
 - Because of *heterogeneity of society* and a *subordinated integration* in the global political economy
 - Includes factors such as a weak industrial base and capitalist class, foreign capitals' interests, fragmented political elite, distinct ethnic and religious identities, etc.

3. Effective IP?

- Legitimacy is not sufficient, **IP also needs to be effective**
 - State needs to have some degree of **‘embedded autonomy’**
 - Embedded bureaucracy vis-à-vis civil society (knowledgeable about the needs of targeted industries)
 - Autonomous bureaucracy vis-à-vis industrial capitalists (and political elite)
 - Difficult to achieve on a large scale → **pockets of efficiency** with strong capabilities and capacities in the state apparatus are sufficient
 - Pockets of efficiency indicate a functioning relationship between the political class, state bureaucracy and capitalists



Comprehensive versus selective approach

- **Comprehensive approach to IP difficult in the global periphery** due to political economic context
 - Limited elements of hegemony and embedded autonomy
- **Selective approach to IP** more likely
 - Promotion of pockets of efficiency and targeting of few selected sectors and activities

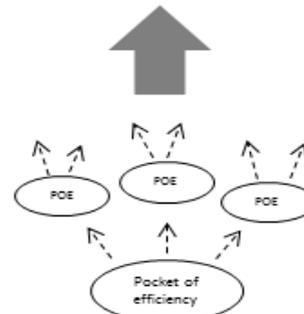
State-society relations

- **Comprehensive hegemonic elements**
 - Commitment at the top
 - Broad alliance of societal forces
 - Private sector partners with connectable interests
 - Extensive material support
 - Strong normative foundation
- **Extensive elements of embedded autonomy**
 - Autonomy of bureaucracy and/or protagonistic role of political elite in IP management
 - Effective relationship between bureaucrats & private sector
 - Disciplining role of bureaucrats vis-à-vis private sector
 - Skills and capabilities within bureaucracy
 - Numerous pockets of efficiency

- **No IP project or very limited hegemonic elements**
 - Narrow commitment at the top
 - Alliances of social forces are limited to certain regions and/or sectors
 - Few partners in the private sector
 - Limited material basis
 - Weak normative foundation
- **Very few elements of embedded autonomy**
 - Limited autonomy of the bureaucracy and/or narrow support of the political elite in IP management
 - No effective relationship between bureaucrats & private sector
 - No disciplining role of bureaucrats vis-à-vis private sector
 - Limited skills and capabilities within bureaucracy
 - Few (potential) pockets of efficiency

Institutional setup

Comprehensive IP approach



Selective IP approach

- Centralized vs. decentralized
- Inclusive vs. exclusive
- Managerial vs. rule-based
- State-led vs. private sector-led production

4. Institutional Setup Typology I

- Four criteria for designing institutional setup:

(1) *Centralisation vs. decentralisation*

- *i.e. Are there regional or sectoral IP organisations? How is the decision making power distributed among IP institutions? Is there a super-agency?*

(2) *Inclusiveness vs. exclusiveness*

- *i.e. Which actors are included in decision making process? Are there interests reflected in IP?*

(3) *Managerial vs. rule-based*

- *i.e. How strong is the decision making power of bureaucracy vis-à-vis political elite → manage IP?*

(4) *State vs. private sector-led production*

4. Institutional Setup Typology II

- There is no on-size-fits-all institutional setup → political economic context
- Trade-offs exists within and between the different institutional setup dimensions, i.e.:
 - Inclusiveness: support legitimization or dilute focus of IP?
 - Centralization: align industrial policy design, but less embeddedness?
 - Managerialism: effective in case of a capable bureaucracy with a meriocratic culture, but otherwise?
 - Etc.

Strengths, weaknesses and challenges of institutional setups: examples

Centralization

- + Centralization facilitates developing a national vision and broad IP strategies
- + **A central super-ordinated IP agency/entity is more likely to ensure political alignment around industrialization and IP** as overarching national goal, restricts silo mentality common in public agencies and changes hierarchy in state institutions
- + **Centralized industrial development planning has an important role for achieving policy coherence for industrialization and facilitating monitoring and evaluation**
- + Centralization lowers costs through economies of scope and scale and allows for tighter financial control
- + Centralization is particularly important in early-stages of industrialization and IP in contexts of limited state capacity, since it enables retaining a critical mass of experts

- Planning, implementation and stakeholder involvement can be more effective at decentralized levels
- **Centralization might have negative effects on inclusiveness and increase non-democratic elements**
- **Centralization can have negative effects on embeddedness of the state, since centralized institutions might be 'too far away' and isolated from practical issues**

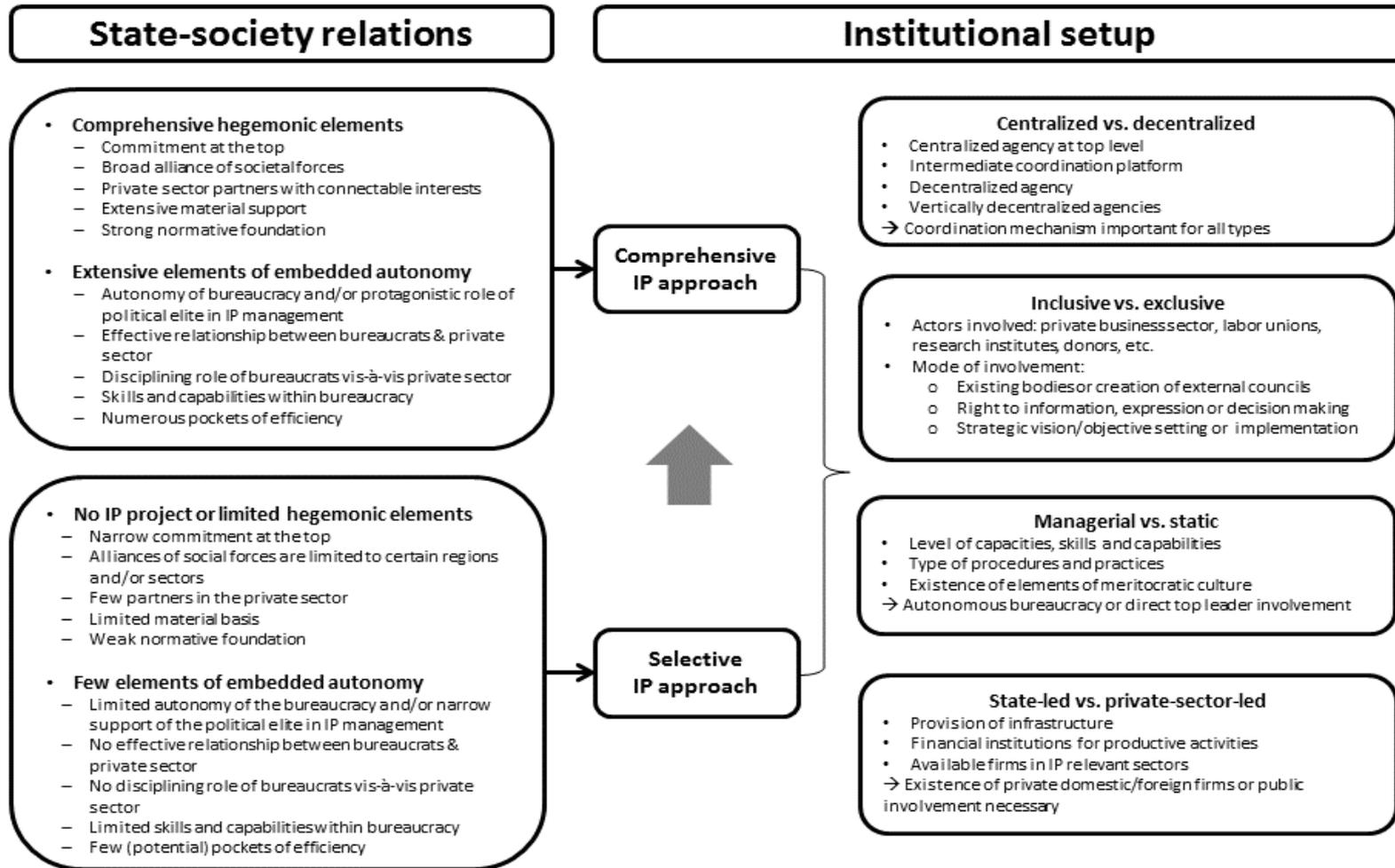
Strengths, weaknesses and challenges of institutional setups: examples

Inclusiveness

- + **Institutionalized stakeholder involvement and coordination mechanisms between state and civil society are important for democratic and legitimacy reasons**
- + **Inclusiveness can increase support for industrialization and IP project within private business sector and other civil society and hence contribute to the sustainability of IP**
- + **Inclusiveness, particularly towards private business sector, can make IP more effective through having positive effects on embeddedness of bureaucracy**
- + Representation of interests of diverse stakeholders allows pro-active problem-solving due to early recognition of potential problems and conflicting interests

- **Consideration of various interests might lead to diluted IP focus and no priorities**
- **More active inclusion of civil society (e.g. labour unions, local populations) might lead to conflict and resistance in case their demands cannot be accommodated**
- Stakeholder involvement and consultation is time-intensive and reduces flexibility of policy-making and can hence have negative impacts on managerialism

State-society relations, comprehensiveness of IP approach & institutional setup (II)



Key take-aways

1. Developmental regime can take many different forms and there is no one-size-fits-all institutional setup
2. Political economic context in the global periphery generally calls for a selective approach to IP
3. Trade-offs exist within and between different institutional setups
4. An inclusive regime is only possible if some degree of hegemony is established



Thank you for your attention!

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Managerialism

- + Managerialism increases effectiveness and efficiency of IP
- + Managerialism allows to adapt IP to changing circumstances and private business sector needs and challenges in a flexible manner
- + A managerialist culture in the IP bureaucracy attracts talent and allows for the recruitment of qualified people that are results-oriented and less prone to capture by private sector interests or corruption

- Autonomy of the bureaucracy might be abused to deviate from the strategic objectives mandated by the political class
- Managerialism may reduce the possibilities for inclusiveness since inclusion might protract speed and flexibility of decision-making processes
- Managerialism in IP bureaucracy might lead to mistrust and conflicts with the incumbent bureaucracy, if the latter considers career models and remuneration of the new managerialist bureaucracy as unjustified privilege

- ❖ Some degree of managerialism is crucial to ensure efficiency and adaptability of IP
- ❖ Managerialism requires close relationships and learning between bureaucrats and the private business sector
- ❖ A managerialist approach with strong involvement of the political class might deliver short-term results, but undermine the long-term sustainability of the IP project, if not accompanied by the building-up of a managerialist bureaucracy
- ❖ Managerialism requires permanent capacity building and skills development which might necessitate hefty upfront financial resource allocation and a long-term budgetary commitment
- ❖ Managerialism requires the delegation of competences and the development of a meritocratic culture that increases commitment and allows for decision making, assuming responsibility and risk taking

Public-sector led production

- + SOEs can play a complementary role to private sector productive activities, particularly in pioneer activities/sectors
- + Public financial institutions have an important role for resource allocation in IP projects by providing long-term funds at affordable cost and by offering incentives for productive investments, particularly in unfavourable macroeconomic contexts
- + Many infrastructure sectors have characteristics of a public good which makes public provision more efficient
- Public-sector production can be inefficient as SOEs are often not disciplined by competitive markets
- SOEs are particularly prone to cronyism
- An inflated state sector might hamper private sector development, depending on the complementary role of SOEs
- ❖ Public institutions have a particularly strategic role in infrastructure and finance provision, though their effective governance puts heavy demands on the capacities and capabilities of the state
- ❖ State-led production can be the outcome of an intentional plan or because there is a lack of private firms willing or able to engage in strategic activities which leads to the crucial question whether to team up with private sector partners (e.g. merchants, diaspora investors, informal sector, foreign firms) to support the establishment of a new group of indigenous entrepreneurs or alternatively opt for the setup of SOE
- ❖ Engaging in IP implies parting with laissez-faire policies and involving in market intervention, which might be unpopular with the private sector, civil society or international donors, particularly if it involves the build-up of SOE in the productive sector or in infrastructure services, which are seen as competitors to incumbent private entities