The EU Through A Developmental Lens

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Moving Away from Washington

Right in the heart of its capital, the US birthed the 'Washington Consensus'; ten clearly defined economic policy tools offered a prescriptive solution to tackle the developmental needs of a country aiming to 'catch up'. The EU 2020 Strategy has continued to iterate the importance for its Member States to develop their innovative capabilities in order to foster economic growth and benefit from the positive spillovers. One might assume that application of the Washington Consensus (WC) would facilitate the EU in its endeavour for catching up with other innovation giants, such as the US. However, evidence from both the US and the European Commission's own suggestions hint towards elements of a disguised 'Developmental State' approach. In contrast to the standard reform package of the WC, the phenomenon that was the Developmental State (DS) exhibits quite the opposite prescription of policy tools. Headed by a bureaucratic elite and prosperous in a post war setting, it almost seems impossible that the same approach could work in a democratic and modern EU setting. Fundamentally, that analysis is correct: it would be near impossible to implement a full DS approach on a macroeconomic level that would help foster innovation in the EU. However, the EU could certainly benefit from borrowing a few tips from the DS model.

Industry Targeted Policy

With innovative activity comes the inherent risk of failure. The EU can assist and encourage the long term risk taking of firms by implementing specific industry targeted policy. Quite the opposite to the WC view of reallocating public expenditure away from subsidies, it is suggested by Amsden et al in their paper 'The Logic of the Developmental State' that government intervention distorts relative prices and opens the opportunity for innovative levels of investment to materialise. In order to prevent crowding out, high risk and capital-intense sectors should be strategically chosen in line with the EU's goal to provide smart, innovative and sustainable growth.

Public-Private Cooperation

Although public-private cooperation (PPC) is often balanced out in by a bureaucratic elite in a standard DS model, PPC is essential to development and innovation in an EU context. Direct examples can be drawn from the US, which Block (2007) described to be a hidden 'developmental network state'. Through PPC, tech knowledge could be transferred into the commercial sphere, fostering innovative growth. Furthermore, PPC is specifically advised by the Council of the EU's 'suggestions for economic policy reform', further shifting away from WC policies and incorporating elements of the DS model.

Adopting Governed Market Theory

As Mazzucato points out in "The Entrepreneurial State", the State is often the actor that initiates innovation in high risk sectors through significant levels of investment. More often than not, the returns on these investments remain disproportionate to the risk taken, leaving the State without a share in the rewards. This lack of means stunts the monetary capability for future investments in high risk sectors, and the process continues in this circular fashion.

The EU should not only facilitate investment, but use the concept of Governed Market Theory to establish mechanisms that allow them to be an active stakeholder in the innovation process. By governing the 'business behaviour' of the market, the EU can implement the structural circumstances and criteria needed for subsidies, for example, non-controlling equity in a company they invest in. In contrast, the WC again proves counterintuitive with the policy suggestion of privatization, as outsourcing valuable skills and can therefore lead to a less dynamic environment for collaborative innovation.

A Tailored Approach

It is important to recognise that the DS model should not be seen as the answer to all innovation policy in the EU, and the WC as an indefinite hindrance. The EU is significantly different than the four East Asian Tigers that initially adopted the standard DS model. The EU is a heterogeneous organization of many cultures, languages, governments and constituencies, operating at a supranational level opposed to the country level implementation from the Four Tigers. This makes it inherently more difficult to implement a common agenda that all Member States can agree to without overgeneralising. However, as displayed, this should not lead to the definitive ruling out of learning lessons from the DS model.

The focus of the EU is on innovation in a smart and sustainable way. These are different values than those held in the early days of the DS in East Asia. The EU citizen has different expectations and demands from both their national government and the EU. These caveats need to be taken into account when creating such a tailored approach to innovation. The EU does however have the agency to play an important coordinating role between Member States. With these borrowed tips from the Developmental State, it is possible that the EU could propel its level of innovation to a desired goal across all Member States.