



Industrial Policy and the Green Transition

Mondays - 17:15 - HYBRID

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- **Week 4 - 2 : States capacities and assignments**

Outline of today's course

1. **State capacities: “Derisking” versus “Big green State”**
2. Discussion of assignment



Prof. Mariana Mazzucato
author of "The Entrepreneurial state"

- *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*
- *Mission Economy: A Moonshot Guide to Changing Capitalism*

Policy orientation

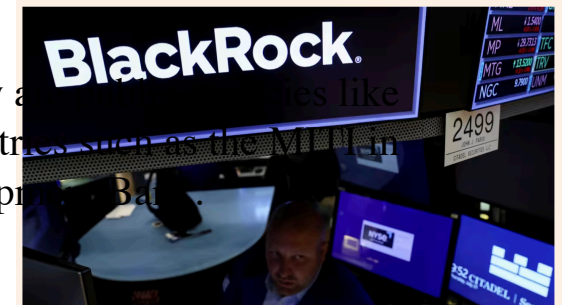
- Member of the Scottish Government's Council of Economic Advisers
- Member of South African President's Economic Advisory Council
- United Nations' High-Level Advisory Board on Economic and Social Affairs
- Etc...

Green industrial policy *à la* Mazzucato (based on Mazzucato 2015)

- Many existing policies are based on the false assumption of the existence of a *shortage of finance*. Those are doomed to failure.
- The problem of the lack of green investment doesn't come from the *supply* of finance from the *type* of finance that is provided
- Truly radical new technologies and sectors in which innovation has a long lead-time (such as green energies) require finance that is **patient, long-term** and **committed** in nature.
- Private finance is **impatient, short-termist** and **volatile**.
- This long-term funding has often come about through public institutions, whether they are DARPA (the Defense Advanced Research Project Agency) in the USA, Finance Ministries in Japan, or through state investment banks like the German KfW or the Chinese Development Bank.

BlackRock pulls back support for climate and social resolutions

Proposals that 'dictate the pace' of energy transition receive fewer votes from \$8.5tn money manager



BlackRock's support for environmental and social proposals dropped from 43% in last year's meeting season to 26% this year © Brendan McDermid/Reuters

This diagnosis leads to different policy recommendations:

- If the lack of green investment is due to a lack of finance *supply* => we need lower tax, more incentives for banks to lend etc...
- If it is due to a lack of a certain *type* of finance => we need more state intervention
- Mazzucato doesn't advocate for a "big green state". State intervention is:
 - Early stage in the investment cycle
 - Not necessarily permanent
 - Aimed at creating and fostering *investment opportunities*
 - Optimistic view: once investments are less risky and more profitable, private investment will kick in
- **"States should be perceived as lead market-creating 'investors', not market- fixing 'spenders'" (p14)**
- "The question is not how to provide easy money, but how to bring forth the *opportunities* (...) how to activate entrepreneurship both public and *private*" (p9)

Instruments of industrial policy à la Mazzucato

- Public-private partnerships, in particular, *de-risking* strategies
 - Ex: credit guarantees, guaranteed returns, investment “matching”
- But we need *conditionalities*, in order to discipline private investors
 - Ex: limits on shareholder buybacks, use of energy efficient supply chains, set targets, and the requirement of certain labor standards to be met.
- The objective is to reach economic effectiveness AND of public mission achievement
- **State with “embedded autonomy” (Evans, 1985)**

		Autonomy	
		low	high
Embeddedness	low	predatory state	Weberian regulatory state
	high	clientelist state	developmental entrepreneurial state

Source: Mazzucato and Perez 2023

What are Gabor's critiques of the “derisking state” (see her X-thread)?



'Green hydrogen is too expensive to use in our EU steel mills, even though we've secured billions in subsidies'

Head of ArcelorMittal's European arm says that decarbonised steel could be made with imported DRI instead

Source: February 2024, Hydrogen Insight (https://assets.rte-france.com/prod/public/concertation-documents/green-hydrogen-is-too-expensive-to-use-in-our-eu-steel-mills-by-g.-van-poelvoorde%2C-ceo-am-europe_0.pdf)

What are Gabor's critiques of the “derisking state” (see her X-thread)?

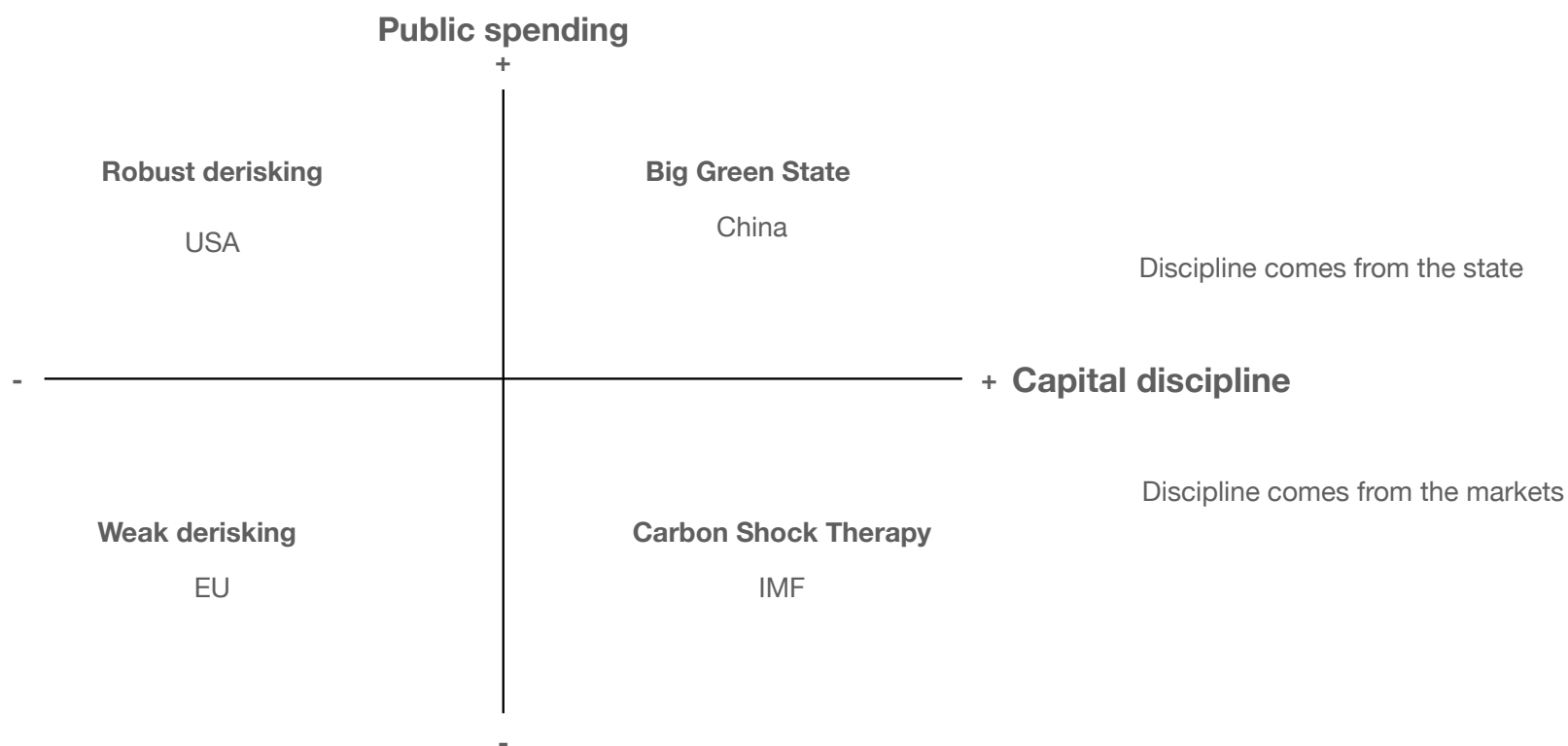


Prof. Daniela Gabor
author of “The Wall-Street consensus”

- Competing with China with derisking strategies is not possible (price signals versus direct public investment)
- GIP: about investing, but also dis-investing!! Private actors reap benefits of derisked green investment, but continues to invest in fossil fuels
- Private lobbies that influence the objectives and instruments of GIP to their own advantage
- Market actors will exit as soon as an investment is not profitable enough, although we need *stable* and long-term investment
- => there is a need to “discipline” capital, through the *domination of public capital* (not only *fostering* investment)
- => and through very strict conditionalities (carrots AND sticks)

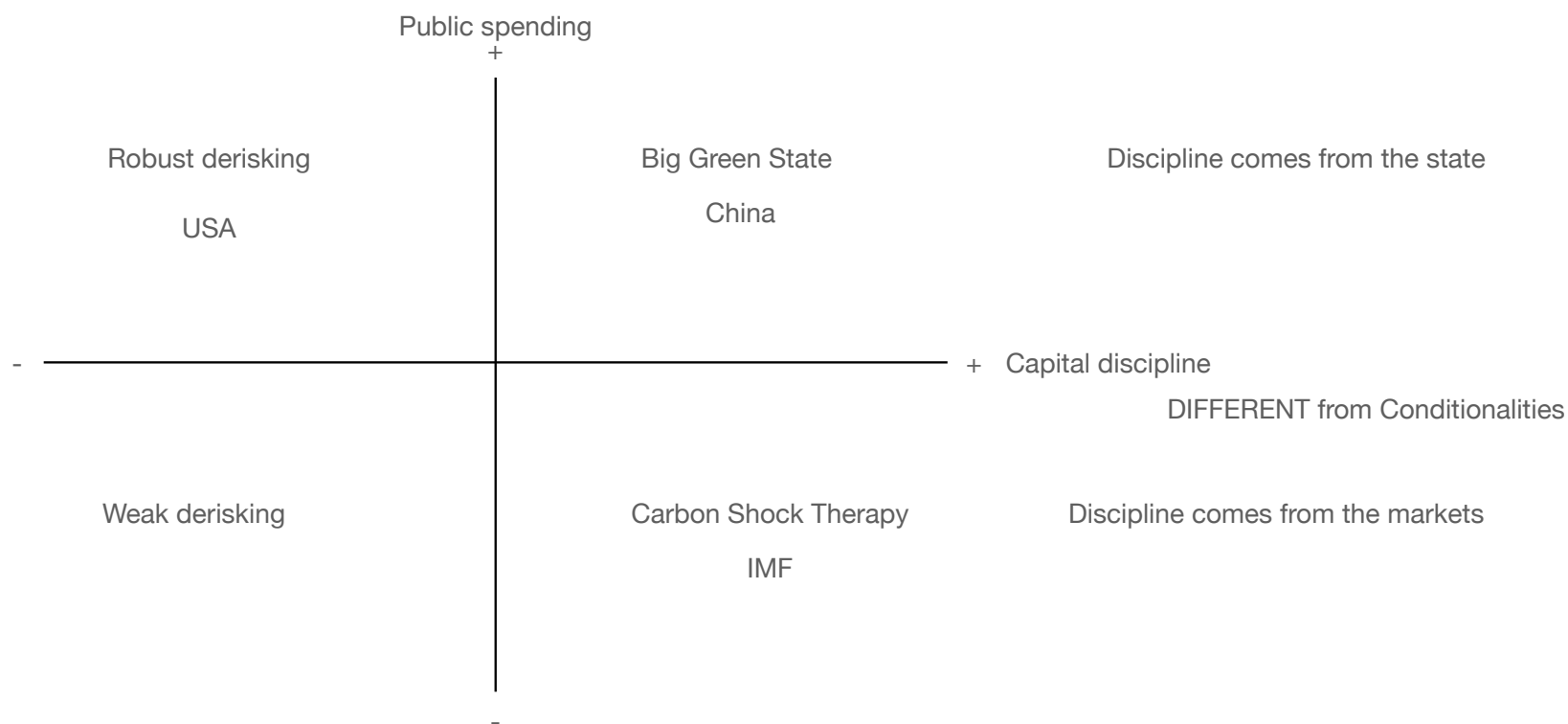
Gabor and Braun 2024: Green macro-financial regimes

- What are the two axes around which the authors' typology is organised?



Gabor and Braun 2024: Green macro-financial regimes

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Gabor and Braun 2024: Green macro-financial regimes

- Which is the dominant macro-financial regime in Europe and US today?
 - “encouraging not prohibiting” ([Macron, 2023](#)).
 - “crowding in private investment—not replacing it” (IRA)
 - “industrial policy under the derisking state regime is tightly constrained: Since it depends on private-sector profits and on private finance as a governance conduit, the state is subject to the structural and infrastructural power of private capital”
- Three State managers’ types:
 - Fiscal hawks
 - Green planners
 - Geo-political hawks
- Coordination through fiscal, monetary and industrial policy

TABLE 2: Four green macrofinancial regimes


Regime	Coordination mechanism	Fiscal-monetary architecture	Industrial policy architecture	Control over credit flows	Factions of state managers
Carbon shock therapy	Prices	Fiscal and monetary austerity reinforce price signals	State- or externally imposed carbon price	(Global) finance as arbiter of discipline	Fiscal hawks + IMF & World Bank
Derisking (weak)	State-modulated prices	Monetary dominance (re-risking); market neutrality	Carrots: State tweaks financial asset returns	(Infra-)structural power of finance: veto power	Fiscal hawks + geopolitical hawks
Derisking (robust)	State-modulated prices	Monetary dominance (re-risking); market neutrality	Carrots: State subsidizes capital expenditure	Structural power of industrial capital: veto power	Geopolitical hawks + green planners
Big green state	Planning	Fiscal-monetary coordination	State capacity to offer carrots and enforce sticks	Captive finance State-ownership in key sectors	Green planners (+ geopolitical hawks)

Source: Gabor and Braun 2024, p8

Outline of today's course

1. State capacities: “Derisking” versus “Big green State”
- 2. Discussion of assignment (18:15)**

Assignments

- First assignment: individual argumentative essay (40%)
 - Publication of the prompt: **07/10/2024**
 - Deadline: **22/11/2024 by 17:00** by email to the two professors
 - Second assignment: group policy report (50%)
 - Publication of the prompt and group formation: **23/09/2024**
 - Group presentation: 25/11/2024 or 02/12/2014 (depending on your group)
 - Deadline: **13/12/2024 by 17:00** by email to the two professors
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Group 1



Mircea-Petru Ditiu (Sciences Po)
Pierin Gantenbein (Sciences Po)
Sophie Tewes (St. Gallen)
Hugo Martel (St. Gallen)

Group 2



Eugenie Baudot (Sciences Po)
Riccardo Paramidani (St. Gallen)
Jules Buzon (Sciences Po)
Liane Konnerth (St. Gallen)

Group 3



Francesca Ungaro (St. Gallen)
Paul Haney (St. Gallen)
Katharina Reisenbauer (Sciences Po)
Tanguy Pousset (Sciences Po)

Group 4



Kiampi Olivia Meli (St. Gallen)
Anna Bernasconi (St. Gallen)
Felix Duron (Sciences Po)
Maximilian Germ (Sciences Po)

Group 5



Vera Hauser (St. Gallen)
Alessandro Casarelli (St. Gallen)
Laura Moreno (Sciences Po)
Julia Lüscher (Sciences Po)

Group 6



Nadine Kramer (Sciences Po)
Riccardo Casarin (St. Gallen)
Aleksander Bjelland (St. Gallen)
Romain Leopold (Sciences Po)

Group 7



Mary Davidson (St. Gallen)
Adnane Belfatmi (Sciences Po)
Markel Amo Sanchez (Sciences Po)
Henrik Jens Hopmann (St. Gallen)

Group 8



Xinyi Liu (St. Gallen)
James-William Hamilton (Sciences Po)
Zélie Pottecher (Sciences Po)
Oskar Skorge (St. Gallen)

Group 9



Paola Schlegel (Sciences Po)
Oussama Ben Sabeur (St. Gallen)
Thibault Laurent (Sciences Po)
Andrej Planinsek (St. Gallen)

Group 10



Marie-Angéline Mansour (Sciences Po)
Alessandro Roberto (Sciences Po)
Lukas Resch (St. Gallen)
Laurie Laporte (St. Gallen)

Group 11



Rohann Rangasamy (Sciences Po)
Nur Izzah Ibrahim (St. Gallen)
Shiraz Moret-Bailly (Sciences Po)

Group 12



Shona Geoghegan (Sciences Po)
Davide Briccola (St. Gallen)
Julio Vazquez Aguilar (Sciences Po)
Jakub Haluska (Sciences Po)

Group 13



Salika Mehta (Sciences Po)
Mohamed Elguindi (Sciences Po)
Simone Madaschi (St. Gallen)
Astrid Cold (Sciences Po)

Group Presentations		
04/11/2024	Group 1	
	Group 3	
	Group 5	
	Group 7	
	Group 9	
	Group 11	
	Group 13	
11/11/2024	Group 2	
	Group 4	
	Group 6	
	Group 8	
	Group 10	
	Group 12	

Assignments

- Let's read the guidelines together.
- Those will be uploaded on the website and remain available at all time

This was week 4 - 2 !

- 1.State capacities: “Derisking” versus “Big green State”**
- 2. Discussion of assignment**

See you next week!
