Industrial Policy and the Green Transition

Mondays - 17:00 - HYBRID

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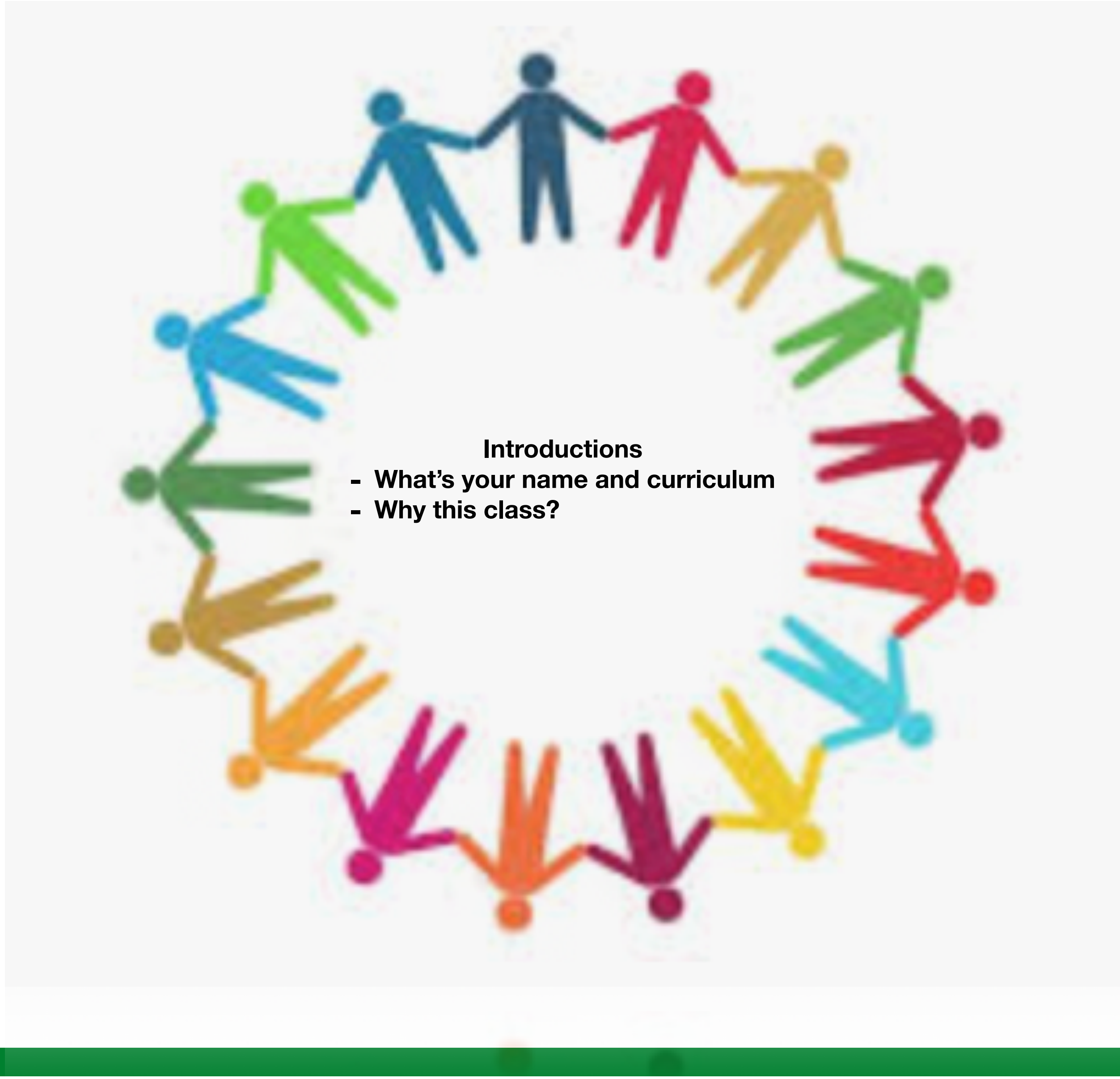
Outline of today's course

1. **General introduction**
2. Logistics of the course
3. Quiz game on green industrial policy



Introductions

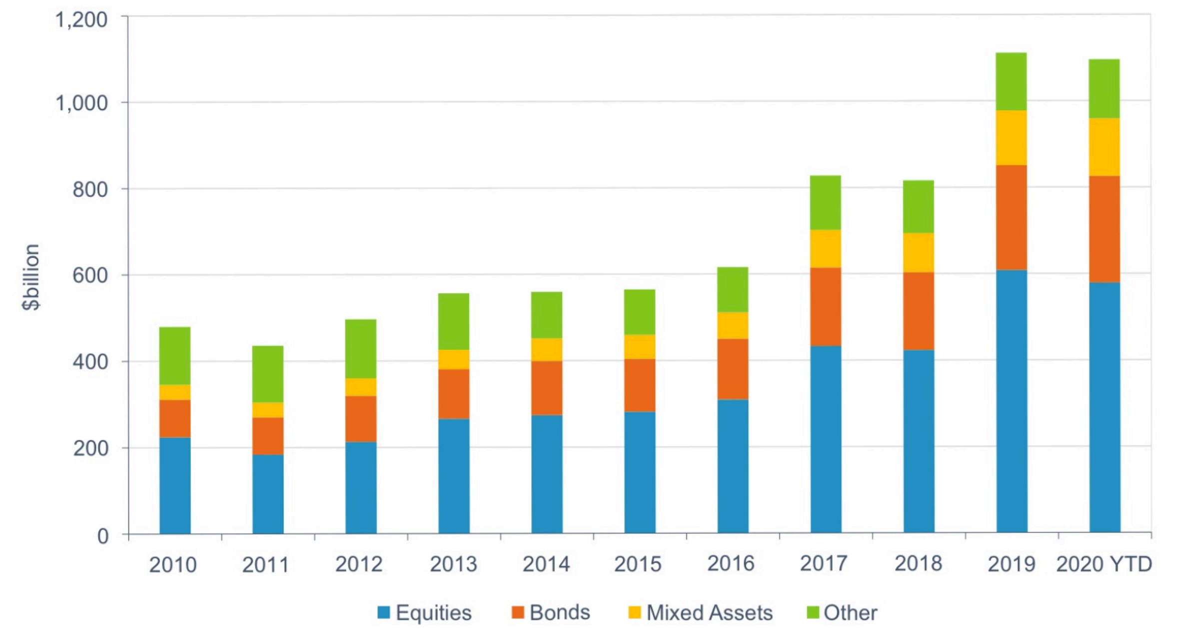
- What's your name and curriculum
- Why this class?

Class objectives

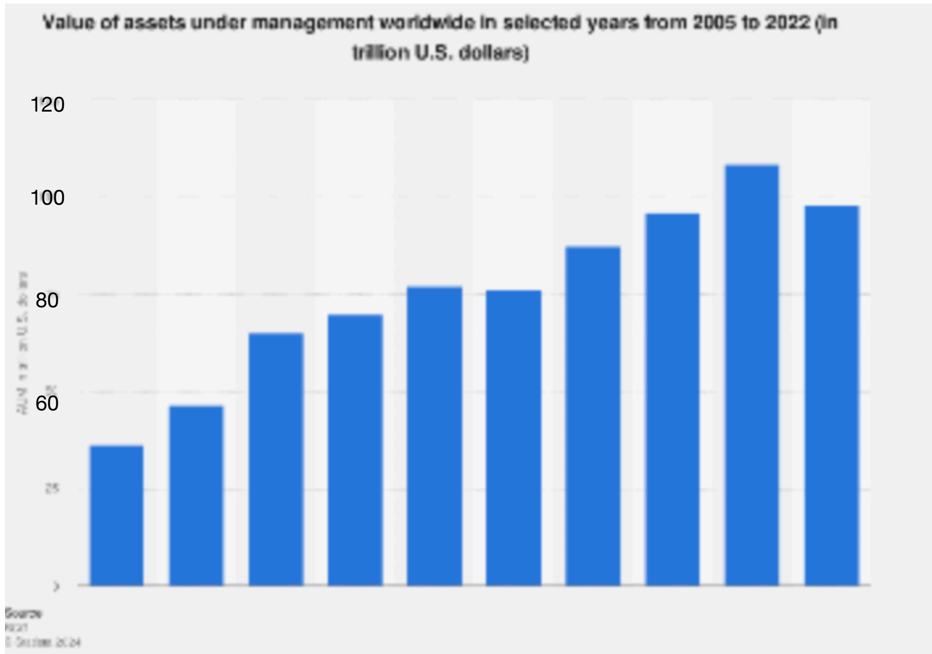
1. Students will gain a comprehensive *understanding of contemporary industrial policy*, particularly in the context of the green transition.

(Green) Private finance

Assets under management in ESG funds



Source: Standard Chartered



Limits of private finance…

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

Two of the world's biggest asset managers are quitting an investor group set up to prod companies over global warming and a third is scaling back its participation, in a major setback to the ambitions of Climate Action 100+.

JPMorgan Asset Management and State Street Global Advisors both confirmed they were leaving Climate Action 100+. BlackRock, the world's largest money manager, is pulling out as a corporate member and transferring its

Marat Markert @MaratMarkert · Feb 15

I mean, even the private capital folks say this - from a report of the Glasgow Financial Alliance mentioned in the piece:

GFANZ is working to support the net-zero transition in EM&DEs through private-sector leadership and public-private collaboration, including through progress driven by its Mobilizing Capital to EM&DEs workstream. The workstream, composed of 35 financial institutions and civil society organizations across 16 countries, is working to take tangible actions to accelerate capital allocation in support of the net-zero transition in EM&DEs. This includes supporting ambitious country platforms such as the Just Energy Transition Partnerships (JETPs), strengthening ties between multilateral development banks and private finance institutions to enhance de-risking instruments, supporting the development of high integrity carbon markets, and advancing global capacity building efforts.

Private finance cannot substitute for public finance, and it cannot flow in the absence of public policies that support the creation of an investable pipeline of projects. Where these conditions exist, there has been progress, as outlined in the Mobilizing Capital In and To Emerging Markets and Developing Economies report.[22] Our shared objective is to help replicate these conditions more broadly to drive the scale of investment required and deliver a just transition. That is why GFANZ is working to drive progress in the following critical areas:

Limits of private finance…

NB: you can find all the references on our website under the tab “references”

- Scale/timing of private investment: not enough, not quickly enough

- Suspicion of greenwashing (Wrt ESG see Freitas et al. 2020)

- Problems in taxonomy: what is really green?

(low-emissions - high emissions activities spectrum)
(Campiglio et al. 2018)

- Continued investment in fossil energies (no logics of divestment) (Reclaim Finance 2022)

- Are Maximising profit and green investment compatible? (Baines and Hager 2022)

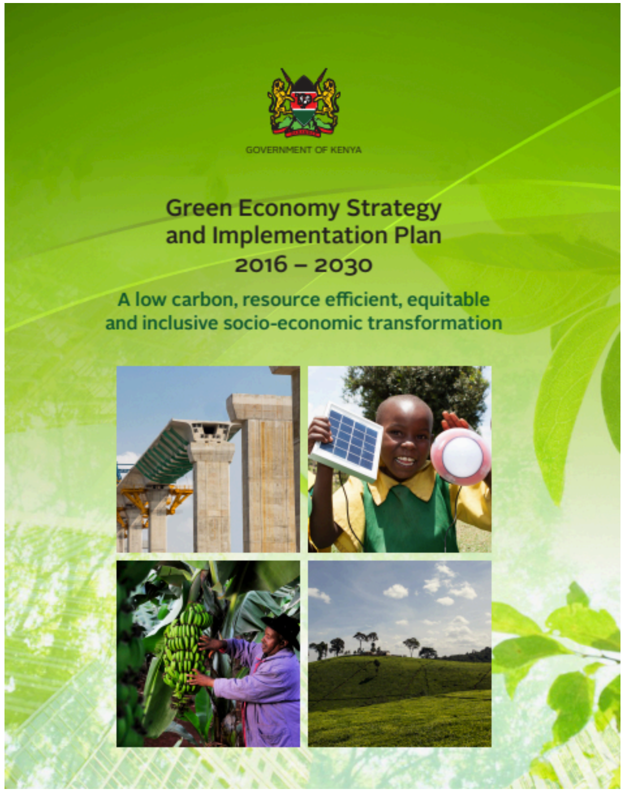
“Green” industrial policy: state’s involvement in financing the green transition In the Global North

Inflation Reduction Act (2022)

European Green Deal (2020)

“Green” industrial policy: state’s involvement in financing the green transition In the Global South

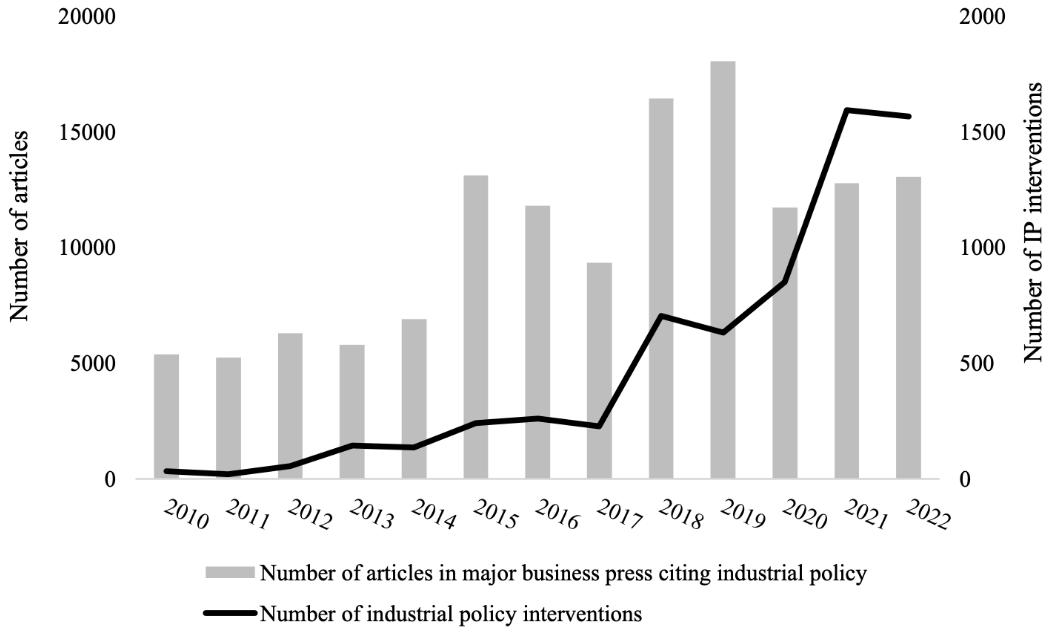
Invirtamos en Chile (2022)



“Green” industrial policy: state’s involvement in financing the green transition
Academics, analysts, policymakers

Mariana Mazzucato, author of “The Entrepreunarial state”

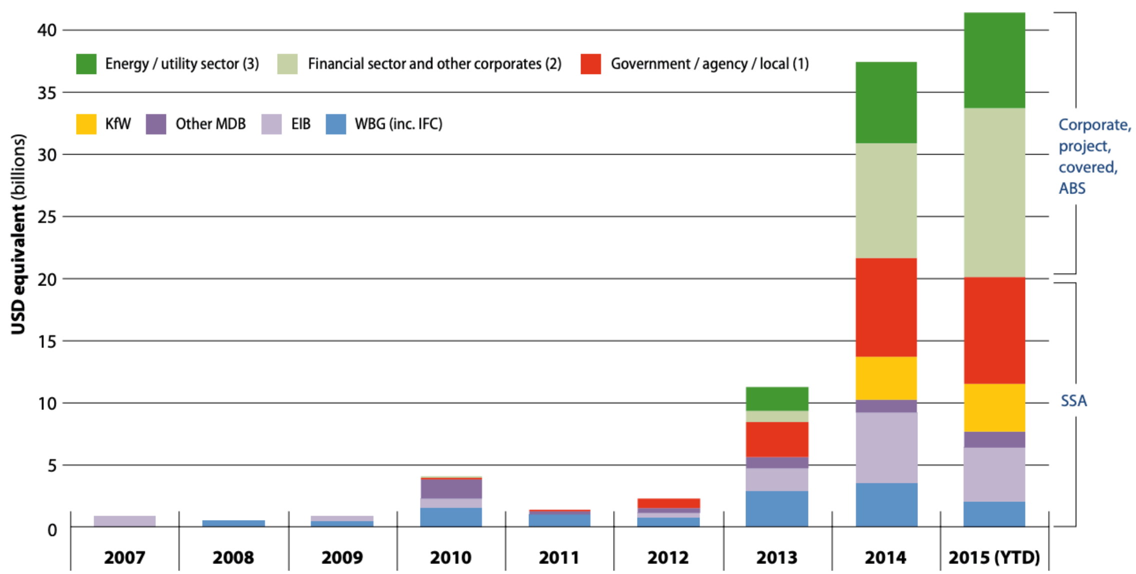
Figure 1. Mentions of industrial policy in the major business press and total number of industrial policy interventions



Source: Evenett, Jakubib, Martin & Ruta (2024); Juhász, Lane, & Rodrik (2023)

“Green” industrial policy: state’s involvement in financing the green transition
Public finance

Figure 2: **Composition of the green bond market** (as of November 2015, USD Bn, gross issuance)



Note: SSA: Sub-sovereign, Supranational and Agency, Muni: Municipal; ABS: Asset Backed Securities. (1) includes national development banks, sub-sovereign jurisdictions including municipalities, agencies, and local funding authorities. (2) includes financial sector bonds and all other corporates that are not energy/utility sector, as well as covered, project and ABS not energy/utility related. (3) includes corporate bonds issued by energy/utility companies as well as covered, project and ABS related to energy/utility companies

Source: OECD analysis based on Bloomberg and World Bank data

GREEN ECB

Rupture with orthodoxy

“Government is not the solution to our problem, government is the problem!”

- “Neo-liberal” ideology

- Orthodox economists : “Chicago School”

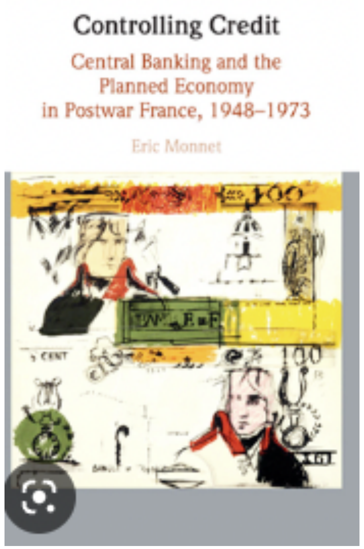
(Milton Friedman, George Stigler, Gary Becker, Eugene Fama)

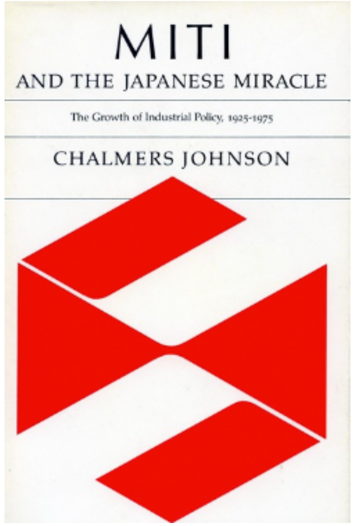
- EU framework builds on state aids’ ban and competition rules (TFUE Article 107)

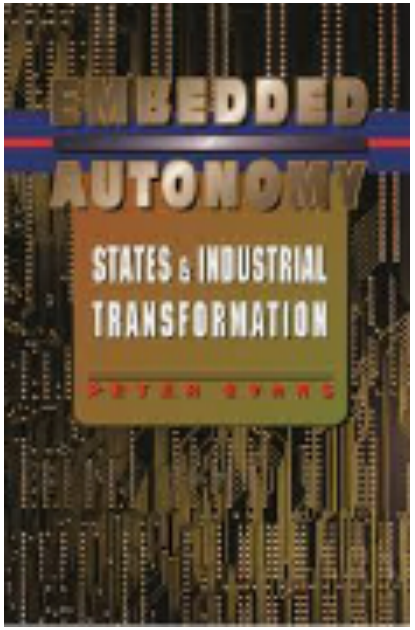
“Any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market”

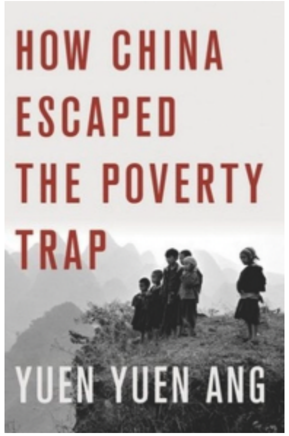
Industrial policy in a historical perspective: *nihil novi sub sole??*

Post-WW2 industrial policies in Europe and Asia









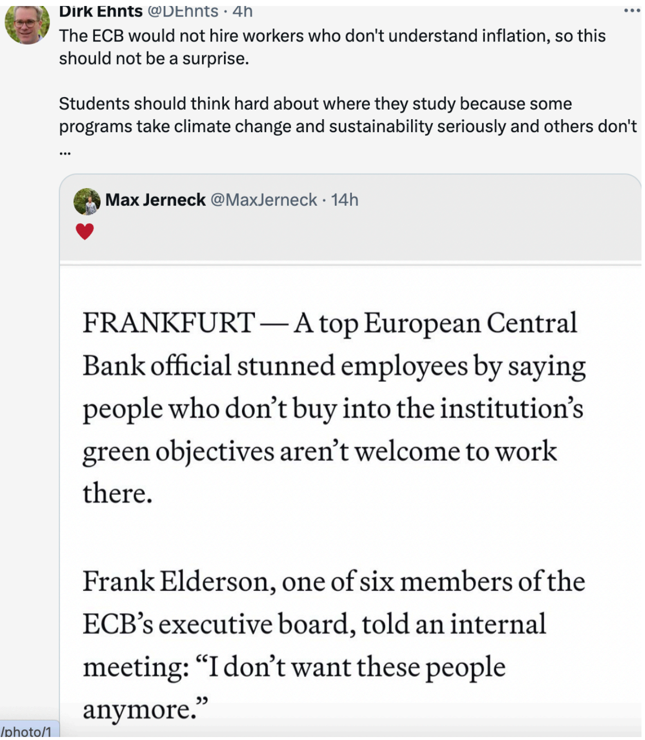
Approaching a definition of green industrial policy

State interventions achieved through **diverse instruments** (regulations, tax incentives, subsidies, credit guarantees, grants…) aimed at **fostering and channeling investment towards "green" sectors** or technologies, and/or discouraging investment away from "dirty" sectors or technologies - and the **very definition of green "objectives"** for a given jurisdiction.

Class objectives

2. Students will explore the *roles of different public and private actors* such as the European Central Bank (ECB), governments, and private firms in implementing green industrial policies. They will also study the tools available to these actors, the coalitions that support them, and the conflicts they generate.

Central banks



Dirk Ehnts @DEhnts · 4h

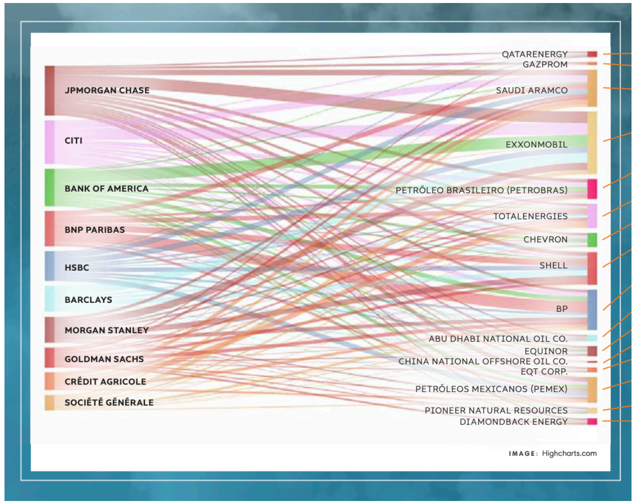
The ECB would not hire workers who don't understand inflation, so this should not be a surprise.

Students should think hard about where they study because some programs take climate change and sustainability seriously and others don't ...

Max Jerneck @MaxJerneck · 14h

FRANKFURT — A top European Central Bank official stunned employees by saying people who don't buy into the institution's green objectives aren't welcome to work there.

Frank Elderson, one of six members of the ECB's executive board, told an internal meeting: "I don't want these people anymore."



Source: Reclaim Finance (2022)

Private finance

December 5, 2023

Global: Record number of fossil fuel lobbyists at COP undermines critical climate talks

Oil companies

Farmers' protest in France, March 2024

Fridays for future

Federal Constitutional Court (FCC) in Karlsruhe ruled that the reallocation of the unused debt from the pandemic support measures to the Energy and Climate Fund was contrary to the German Constitution.

Courts

Civil society

Class objectives

3. Students will *analyze the implications of green industrial policies* on various aspects, including **economic**, **environmental**, and **social** dimensions. They will critically evaluate the trade-offs, unintended consequences, and distributive effects of these policies, applying on real-world cases concepts drawn from international political economy, economics, law, and business studies.

- Fostering thinking across disciplines through practicing how to integrate different disciplinary contributions

Questions?


Courts
Law
Firms
Business
Polities
Political Science
Markets
Economics

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CLASS BLOG: https://gratuit-5375285.webadorsite.com/

Let’s look at the website and at the syllabus

Assignments

- First assignment: individual argumentative essay (40%)
  - Publication of the prompt: **07/10/202**
  - 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: **13/12/2014 by 17:00** by email to the two professors

Participation grade

- In oral: Engagement with the material in class, participation in the debate and presentation
- In written: Participation to the blog’s discussions

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Quiz game: Green industrial policy

1. Form teams of about 5 people
2. Introduce yourself to the other team members
3. Choose a name for your team
4. Take a sheet of paper and designate one member who will be responsible to write down your collective answers
5. NO ELECTRONIC ASSISTANCE, Stop writing when time is over

Question 1: What is the nationality and name of the current president of the EU commission?

30 seconds

Question 2: Which US president is well known for establishing the “New Deal” between 1933 and 1938? What is the New Deal?

90 seconds

Question 3: What is the primary mandate of the ECB?
Question 3 bis: What is the secondary mandate of the ECB?

90 seconds

Question 4

The EU has no budget of its own… yet is has established the Recovery and Resilience Facility, through which the Commission raises funds by borrowing on the capital markets (issuing bonds on behalf of the EU). In 2022, it represents 723bn €, at least X% of which must be used to support climate objectives by member states.

X= 17%
X = 37%
X= 57%

30 seconds

Question 5: EU competition rules are supposed to rein in state aids, but those have increased these past decades. Which three EU countries have used state aids the most?

60 seconds

Question 6

EU’s green deal’s ultimate goal of reaching climate neutrality by….

30 seconds

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- The New Deal was a series of programs, public work projects, financial reforms, and regulations enacted **by President Franklin D. Roosevelt**.
- Re-organization of state apparatus
- Public investment (public works and infrastructures, public employment)
- Social protection
- Financial regulation to channel credit to real economy

Question 2: Which US president is well known for establishing the "New Deal" between 1933 and 1938? What is the New Deal?

- Inflation Reduction Act (August 2022)
- key stated goal: reduce carbon emissions by around 40 percent by 2030.
- Grants, loans, tax provisions etc.. to accelerate the deployment of clean energy, clean vehicles, clean buildings and clean manufacturing.
- 370bn$

Question 3: What is the primary mandate of the ECB?
Question 3 bis: What is the secondary mandate of the ECB?

60 seconds

Question 6: What is ECB’s primary mandate?

Maintaining **price stability** in the Euro Area
TFEU Art 127 (1)
1998: defined price stability as inflation of under 2% maintained “over the medium term”

Question 6bis: What is ECB’s secondary mandate?

Without prejudice to the objective of price stability, the ESCB shall **support the general economic policies** in the Union with a view to **contributing to the achievement of the objectives of the Union** as laid down in Article 3 of the Treaty on European Union

Question 4

The EU has no budget of its own… yet is has established the Recovery and Resilience Facility, through which the Commission raises funds by borrowing on the capital markets (issuing bonds on behalf of the EU). In 2022, it represents 723bn € (half grant, half loans), at least X% of which must be used to support climate objectives by member states.

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- The Facility entered into force on 19 February 2021. It finances reforms and investments in EU Member States made from the start of the pandemic in February 2020 until 31 December 2026. Countries can receive financing up to a previously agreed maximum amount.

- To benefit from support under the Facility, EU governments have submitted national recovery and resilience plans, outlining the reforms and investments they will implement by end-2026, with clear milestones and targets. The plans had to allocate at least **37%** of their budget to green measures and **20%** to digital measures.

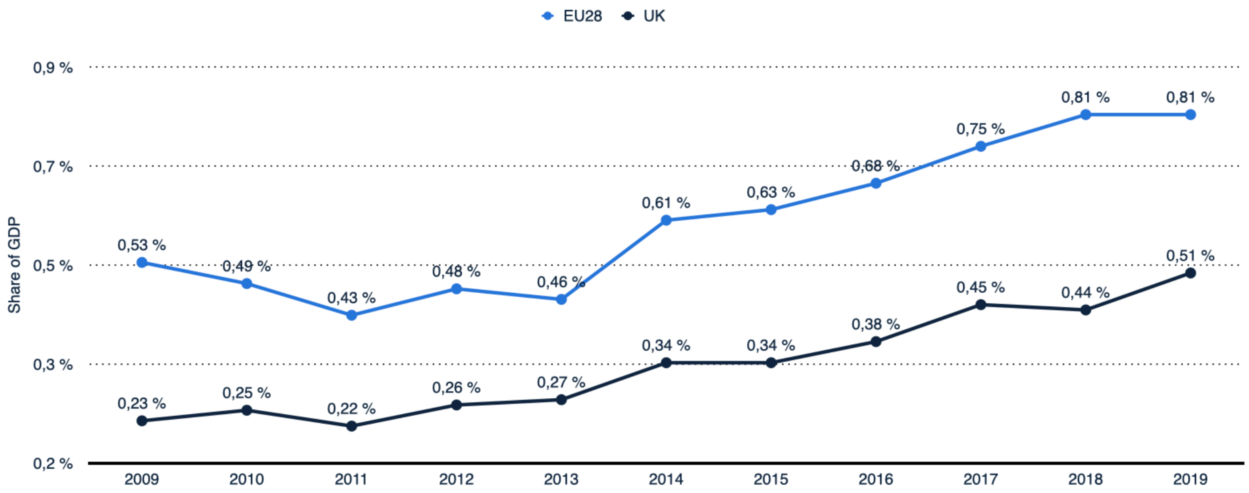
- The Recovery and Resilience Facility is **performance based.** This means that the Commission only pays out the amounts to each country when they have achieved the agreed milestones and targets towards completing the reforms and investments included in their plan.

Question 5: EU competition rules are supposed to rein in state aids, but those have increased this past decades. Which three countries have most benefited from this increase?

Question 4: EU competition rules are supposed to rein in state aids, but those have increased this past decades. Which three countries have most benefited from this increase?

Share of gross domestic product spent on state aid in the European Union and United Kingdom from 2009 to 2019

Share of GDP spent on state aid in the EU and UK 2009-2019



Note(s): EU; 2009 to 2019
Further information regarding this statistic can be found on page 8.
Source(s): European Commission; Eurostat; ID 1232556

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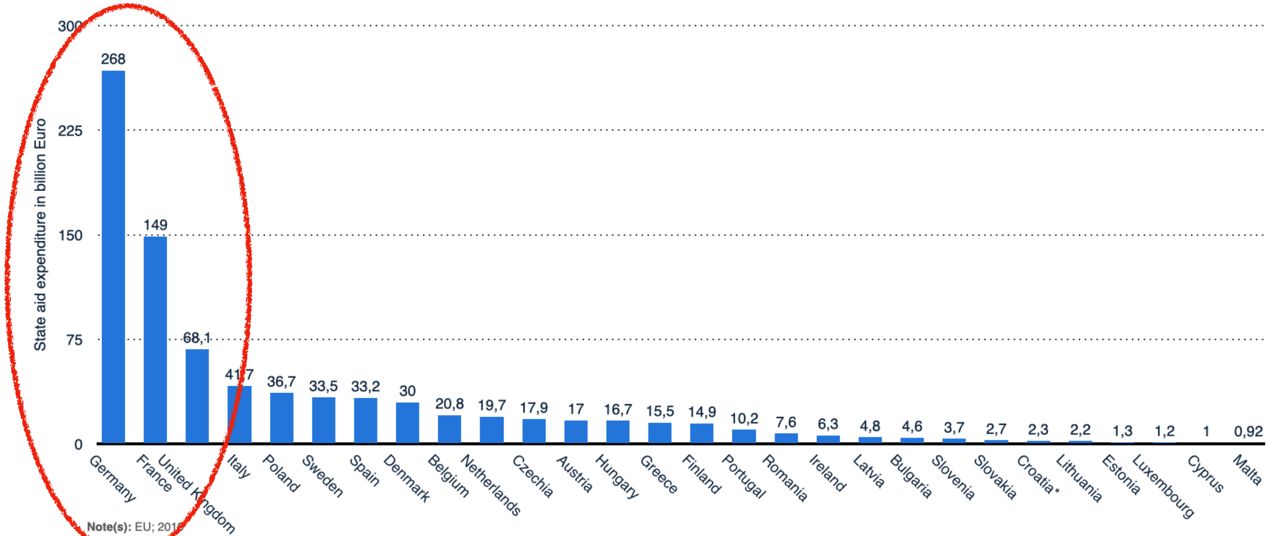
statista

Question 4: EU competition rules are supposed to rein in state aids, but those have increased this past decades. Which three countries have most benefited from this increase?

Cumulative expenditure on non-agricultural state aid among European Union countries between 2009 and 2018 (in billion Euro)

State aid expenditure in the EU 2009-2018



Note(s): EU; 201

Further information regarding this statistic can be found on page 8.

Source(s): European Commission; ID 1232446

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statista

Question 6

EU’s green deal’s ultimate goal of reaching climate neutrality by….

30 seconds

Question 6

EU’s green deal’s ultimate goal of reaching climate neutrality by….

2050

30 seconds

This was week 1 !

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See you next week!