

## THE PRACTICES OF STRUCTURAL POLICY IN WESTERN MARKET ECONOMIES SINCE THE 1960S

Conference at the Center for Contemporary History Potsdam (ZZF), May 28-29, 2015. Co-sponsored by the ZZF, the German Historical Institute Washington, and the Department of History, Emory University. Conveners: Ralf Ahrens (ZZF), Astrid M. Eckert (Emory University), and Stefan Hördler (GHI / Buchenwald & Mittelbau-Dora Memorial Foundation). Participants: Frank Bösch (ZZF), Marc Buggeln (Humboldt University Berlin), Martin Chick (University of Edinburgh), Rüdiger Gerlach (ZZF), Rüdiger Graf (ZZF), Ferenc Gyuris (Eötvös Loránd University, Budapest), Fabio Lavista (Bocconi University, Milano), Marc Levinson (Washington, D.C.), Christian Marx (University of Trier), Christopher Neumaier (ZZF), Kim C. Priemel (Humboldt University Berlin), Dorothee Ryser (University of Basel), Anne Sudrow (ZZF), Christos Tsakas (University of Crete), and Laurent Warlouzet (Artois University).

Under the heading “after the boom,” the 1970s have been the subject of historical research for some time now, at least in German historiography, where they stand for a time of accelerated structural economic change with its concomitant social transformations. The workshop “The Practices of Structural Policy in Western Market Economies since the 1960s” focused on political reactions to the economic challenges of those post-boom years. These reactions, including protectionism, cartel formation and state subsidies, have been controversially discussed ever since their implementation but have remained under-researched among historians. “Structural policy,” as Germans tend to call it, or “industrial policy” in the English-speaking world, did not aim at improving macroeconomic structures but targeted particular sectors, regions, and even individual companies. The workshop addressed the origins of such policies, the political debates surrounding them as well as the practices and consequences of structural policies in Western Europe and the United States.

In his opening statement, Ralf Ahrens emphasized the opportunity to gain a comparative perspective of structural policy approaches in various countries and across international organizations. Such a comparison would be a first step towards determining the respective role of economic interests and a priori assumptions about future economic development, as well as regional and sectoral specificities

within the political, economic and societal negotiation processes that led to structural interventions.

The first panel on industrial policies “after the boom” began with Martin Chick’s case study on Great Britain’s industrial policy since 1970. Structural policies with a focus on large industries already played a role during the postwar boom years. If shortfalls in supply were imminent or unemployment on the rise, the government intervened with the argument that the market, left to its own devices, would not adjust quickly enough to altered economic circumstances. The massive deindustrialization of the 1970s renewed debates about industrial policy. As Chick observed, however, government thinking about industrial policy shifted significantly with the rise of neoliberal economic theory. Instead of opting for job security and support of domestic manufacturing and industry, the government battled inflation, enhanced competition and supported labor mobility. Despite the unabated decline of whole industrial sectors like coal and steel and the high long-term unemployment that came with it, the dogma of the self-healing powers of the market prevailed, rendering structural policy all but meaningless.

In the United States, industrial policy followed a fundamentally different path than in Europe during the 1970s and 1980s. As Marc Levinson pointed out in the panel’s second paper on U.S. industrial policy from 1969 to 1985, the U.S. government opted for protection against foreign competitors of certain sectors such as apparel, textiles, steel and cars, instead of subsidies. This policy did not show much coherence and design. It was often based on bilateral agreements and did not induce any innovation or modernization processes within the favored industries. The protection of these “old,” non-innovative sectors not only led to deadweight loss but also slowed down productivity growth and therefore the American economic performance as such.

The second panel explored the role of the European Community in industrial policy. Laurent Warlouzet showed how France, Great Britain, the Federal Republic and the European Community (EC) struggled to find a common answer to the steel crisis of the mid-1970s. A truly European solution would have been an obvious route to pursue since the crisis threatened jobs in the leading national economies of the community. Besides, these countries shared an established sector-related institution, the European Coal and Steel Community (ECSC), which had traditionally coordinated and regulated the market.

However, it proved difficult to find consensus among the vested interests of the respective national steel companies as well as among the governments involved. France and Great Britain would have preferred a national solution to the crisis, yet individual approaches like these were expected to trigger a subsidy race between EC partner states. Such concerns strengthened the idea of a supranational institution as an arbiter. The West German government objected all along to what it considered a “neo-mercantilist” solution. Warlouzet argued that the late German consent to sweeping controls for the European Commission was a result of the general pro-European climate in Bonn, paired with conflicting attitudes towards structural policy within the administration itself. In the end, there were no alternatives to a supranational European solution anyway because the steel crisis caught up with German companies as well, and steel producers proved unable to organize any form of regulation on their own; subsidy races thus became a distinct possibility. Warlouzet concluded that such a structural policy on the European level was rather the exception than the rule. It only succeeded in the case of steel because it appeared to be the best of a number of bad options.

Christos Tsakas discussed the connection of European integration and industrial policy from the Greek perspective. Beginning with the first administration of Konstantinos Karamanlis and lasting until the second oil crisis, government support for investments in and export of industrial goods constituted one of the main tools of Greek policy. Tsakas explained how Greece fostered close cooperation between its economy and the European Economic Community (EEC), thereby bringing about a boost in industrial productivity. Key components in this process were the close cooperation with West Germany in the modernization of the Greek industrial stock, the successive reduction of trade restrictions with EEC countries, general economic reforms during the second Karamanlis administration that were supported by leading economic figures as well as a generally business-friendly environment during the years of the dictatorship. Despite changing political regimes, the parallel process of the political and economic integration of the EEC turned into a constant in Greek politics. Well into the 1980s, it was carried by a broad societal consensus that was the prerequisite of the various modernization processes.

The third panel addressed the peculiarities of regional structural aid within the framework of regional policy. Ferenc Gyuris deconstructed the western models of spatial economics that emerged

during the Cold War. Key American economic models regarded regional disparities and their related social and political problems as common by-products of economic activity. However, since Communism explained differences in prosperity as the result of capitalist exploitation and propagated more egalitarian and fair alternatives, it became imperative to render the western model more attractive, even for economic peripheries. According to Gyuris, neo-classical economists like Myrdal, Hirschman, Williamson and Friedman therefore generated theories that depicted polarizing effects during capitalist economic growth processes as inevitable but held out the prospect of long-term convergence and a broader distribution of wealth. However, upon closer inspection, Gyuris argued, these constructions might be better understood as working hypotheses rather than fully-fledged theories, not least because they still lacked a robust empirical basis. Gyuris concluded that these western economic theories were dominated by American economic thought and complemented the American geopolitical agenda. Due to the academic authority of the respective authors, these economic explanations were soon treated as facts rather than hypotheses.

Astrid M. Eckert focused on the so-called “zonal borderland aid” program (*Zonenrandförderung*), one of the most persistent regional aid programs in West German history that supported regions along the inter-German border. Ideological competition between East and West dictated that these border regions be firmly integrated into the newly founded Federal Republic in order to reflect the success of the West German socio-economic model. The subsidized territory amounted to almost twenty percent of West German territory and was of great economic heterogeneity. During the negotiations for the Treaty of Rome, government aid to West Berlin and to these borderlands was exempted from European state aid control. The paper sought to explain why, despite this exemption, the European Commissioner for Competition (DG IV) increasingly criticized borderland aid and tried to curtail it, a development that was unacceptable for the West German government for domestic political reasons. Brussels criticized that *Zonenrandförderung* defined state aid recipients by location, rather than by quantifiable need. Bonn countered that borderland aid was a *political*, not an economic category of aid and therefore did not fall under the purview of European state aid control. Since a political resolution of the dispute was unlikely, the European Commission decided to litigate several cases of sectoral aid under the umbrella of borderland aid, thereby asserting the increased importance of the

supranational European institutions for national structural policies. Despite these challenges, however, borderland aid was only phased out after unification, which speaks for the path dependency of state aids; once enacted, they prove difficult to withdraw.

Fabio Lavista offered a perspective on the paradigmatic Italian case of regional aid, namely the development of the Mezzogiorno. The institutional framework for aid to Italy's southern regions was already established during the interwar years. The structural program was characterized by state-directed industrialization projects, top-down investment incentives and assigned a key role to state-run companies in the effort to provide employment. However, the program was also marred by a lack of coordination between central and regional players. As a consequence, local markets experienced distortions and a specialization on less technology-intensive sectors. In the end, the institutional weaknesses of the project turned structural policy for the Mezzogiorno into a failure: short-term political objectives drowned out economic objectives, and the parochial interests of individual actors undermined a constructive and efficient development policy. Lavista concluded with the thesis that the institutional framework of the Mezzogiorno program, devised during the fascist decade of the 1930s, did not undergo sufficient democratic reforms after the war in order to free itself of the purely political objectives of national and regional players.

The fourth panel shifted the perspective to structural policies on the sectoral level. Dorothee Ryser offered a case study of the Swiss dairy sector. When the dairy sector came under price pressures during the 1950s, the Swiss government began to support it in order to save the livelihood of dairy farmers and acknowledge the cultural meaning of this sector for the country. The state task of regulating the dairy sector was delegated to the market-dominating private cartel, the Swiss Cheese Union. The arrangement did not create any incentives to increase productivity or adjust capacities to market demand. Ryser showed how the growing discrepancy between production cost in Switzerland and prices on the world market fueled the need for ever increasing state subsidies in order to keep milk prices stable, a phenomenon soon called the "milk bill". Yet despite the high expenditures, politics and the electorate continued to support the dairy sector well into the 1990s. Ryser concluded that the sector constituted a sacred cow that was fed by the state against better economic judgment.

The following paper by Stefan Hördler followed up on the contributions of Warlouzet and Levinson and addressed the steel crisis in a comparative West German-American framework. In order to throw the different economic and social historical background of structural change on the regional level into sharper relief, Hördler focused on the former steel plants in Duisburg-Rheinhausen and Bethlehem, Pennsylvania. Confronted with the struggling steel industry, the U.S. turned to protectionism, which undermined substantial incentives for innovation and prevented the development and application of new technologies. Consequently, this approach did not halt the decline of the sector. Germany, by contrast, opted for a more active role by the state and rolled out investment support while simultaneously limiting production contingents, which led to a modernization of production processes and a specialization on higher-quality products. Hördler's suggestion that, after 1990, the steel plants in the former GDR became labs for experimentation with structural change might prove of particular interest to future work.

The panel's third paper, by Ralf Ahrens, provided an analysis of West German structural policy and state subsidies, focusing on political actors at the federal level. The early encounters with the end of the postwar boom in the mid- to late 1960s led to called for a scientifically based industrial policy that would support the development of modern economic structures. The reports on structural change issued by the Federal Economic Ministry were signs of this development. Based on ample empirical data, Ahrens showed not only that subsidies rose significantly between 1968 and 1985 but also that, with the exception of support for Airbus, these subsidies predominantly benefited "sunset industries." His analysis of federal subsidy reports (*Subventionsberichte*) revealed that the professed goals of a state-sponsored modernization of the economy and the idea of a socially acceptable reduction of old industrial structures degenerated into rhetorical platitudes. Despite growing criticism that state subsidies constituted "opium for the economy" because they supported the past rather than the future, Ahrens argued that subsidy politics developed its own dynamic. To explain this dynamic and state subsidies' persistence, however, would require an analysis that would not only include the federal level but also representatives of the federal states, the European Union and the affected companies.

The conference's final paper, by Christian Marx, dealt with the West European synthetic fiber industry and emphasized to what extent

the interests of individual sectors and businesses could differ from those of politicians in questions of structural policy. The synthetic fiber industry reacted to the crisis of the late 1960s with internal agreements on production quotas and prices that happened to violate German cartel law. Since the problem of excess capacity persisted, a supranational European solution appeared to be a viable solution. However, similar to the complex constellation of interests in the steel crisis, the conflicting interests of individual EEC member states, companies, local trade unions and the European Commission proved difficult to reconcile. In the end, a cartel agreement did emerge. The European Commission backed the agreement because the negative consequences of excess synthetic fiber production as well as Italy's market-distorting subsidies could not have been reigned in otherwise. The contractual reduction in capacities allowed the companies to reduce the number of employees, preferably in a "socially acceptable" ("*sozialverträglich*") fashion, and to focus on innovative new products.

The workshop's concluding discussion centered on the general character of industrial policy. Here industrial policy emerged less as an instrument to create efficient, modern economic structures and more as a social-political measure that aimed at softening the blow of structural change in sunset industries. Based on the insights of Chick's paper, Eckert emphasized the long and powerful shadow of the boom years, or golden age, which had entrenched the idea of full employment and prosperity as a universal benchmark. One common thread in several papers, she noted, suggested that industrial policy sought to recover this particular *status quo ante* by tinkering with symptoms of structural change without acknowledging that the boom years were irretrievably receding; in that sense, industrial policy appears not unlike the maneuvers of an army training for the last war. Another concluding thought held that the price tag of industrial or "structural" policy — if it deserved that name at all — consisted not only of the monies expended as subsidies or deadweight losses, but also of decelerated modernization and productivity of key economic structures. The workshop also pointed towards several issues that would merit further exploration: In order to grasp the origins and momentum of industrial policy, one would need to analyze the dynamic between multiple actors, negotiation processes, and institutional structures. Such an analysis would need to pay attention to the meaning of rent-seeking processes, economic theories, and nationally specific structures and economic traditions. Another potentially fruitful

approach may lie in the analysis of the spatial impact of structural policy over time, such as the consequences for regional employment, labor migration, urban development, and local economic hubs. Given that most papers took a critical view of structural state interventions, the question arises of how to assess the social benefit of state aid, especially considering the alternative scenario of non-intervention and the loss of jobs.

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