

'...in the last thirty years American businesses have shifted their focus from the production of goods (now done elsewhere) to the projection of brands, that is, states of mind in the consumer, and this shift finds its correlate in the production of mentalities in workers. Process becomes more important than product, and is to be optimized through management techniques...'

(Matthew B. Crawford, Shop class as soulcraft, an inquiry into the value of work)

Invisible hand;

Mother of inflated hope,

Mistress of despair!

(Haiku on neoclassical economics by Stephen T. Ziliak)

'Europe has become the greater Switzerland of the 21st century: comfortable, complacent and unwilling to venture abroad'.

(Philip Stevens, Europe in the slow lane)

Making things (better): industry still matters

Paul Drewe

Recently, a growing number of publications focuses on the importance of industry, read *manufacturing*. This is influenced by the economic crisis and by the success of newcomers like China or India (see e.g. Le Monde, 2011). Without industry, it seems difficult to create jobs, produce economic growth, and maintains one's position as an economic power.

Industry used to be associated with pollution, social unrest, and strenuous working conditions. Today it means *making, maintaining and repairing things*. Even if high tech is applied, there is, at core, a manual know how involved. This may be a far cry from 'the art of motorcycle maintenance', but to inquire into the value of work can still be instructive (Crawford, 2009). Making, maintaining and repairing things is about *real* things, instead of just juggling paper, clicking on computer keyboards or creating financial bubbles.

According to official statistics, industry creates about less than a third of total employment. However, not counting producer services is to underestimate the weight of manufacturing.

'Producer services are intermediate inputs to further production activities that are sold to other firms, although households are also important consumers in some cases. They typically have a high information content and often reflect a "contracting out" of support services that could be provided in-house. Producer services comprise: business and professional services, financial services, insurance services, and real estate services' (OECD).

For a deeper economic analysis of producer services see Francois & Woerz (2007).

Those who emphasize that industry still matters often quote **Germany** as example because it seems to have resisted the economic crisis better than most other European countries.

'Because it has remained more solid with its industrial mix and has become more future proof than the Anglosaxon model which has set the fashion for the last thirty years and has looked down on Germany with pity and arrogance. Because in Germany chimneys continue smoking and conveyor belts keep on running, and because here real products are packed and not unrecognizable financial products.' (according to Schwennicke, 2011).

Germany's present growth is mainly based on export (to China). Some claim, however, that this is happening at the expense of other (their) countries thanks to a modern version of Keynes' 'beggar thy neighbor policy' thanks to lower labor costs. According to Felipe & Kumar (2011) however Germany's competitive advantage is rather based on the fact that it exports complex products: with a share of more than 12% of the ten most complex products traded worldwide and a share of more than 30% of the most complex third. Hence making things better reads making more complex products [1].

Choosing a country as a role model for economic policy is not new. Take for example the Japanese (MITI) model of the eighties and nineties. OTA, the US Office of Technology Assessment (1990) has published a report entitled 'Making things better: competing in manufacturing' in praise of Japan. (Note that Philips has 'borrowed' OTA's slogan in a slightly changed way: 'to make things better'.)

How sustainable is the 'German model'? Isn't an export-oriented economy always to some extent 'other-directed'? The French Coface analyzes regularly the risk per country (see: <http://www.coface.fr>). If we look at the strengths and weaknesses of Germany, the industrial base indeed is one of the strong points. But the dominant part of the automobile industry – both as far as production and export are concerned – is seen as a weakness. Will the strengths or the weaknesses prevail in future?

Economists cannot predict (as we have learned the hard way) which does not deter them however from eagerly extrapolating the 'recovery' curve, glossing over the losses incurred during the crisis.

Making things (better) German style is at best a temporary route map to be further developed in two directions:

- to sustain it, one needs to stimulate innovation
- and Europe must leave the slow lane of becoming the greater Switzerland of the 21st century (Stevens).

More about this later.

The German model portrays the macroeconomic landscape of the country which is in a certain sense only an abstraction: the real economy rather happens in cities and regions and, above all, in individual companies. Hence for a better understanding it is necessary to zoom in on those lower levels.

Let us take a closer look at the German town of L. It is a medium-sized industrial town where a little more than half of the employment is in industry (not counting producer services). L. is endowed with a rich mix of industrial activities: aluminium processing, automobile industry. Electrical and lighting, mechanical engineering, and tool manufacturing. Industry is dominated by small and medium-sized companies which, thanks to their innovativeness have proved to be competitive internationally. There is, for example, the success story of a family business founded in the crisis years of the thirties. It has moved from the production of lamps to the 'concept of light, applied in museums, galleries, trade fairs and exhibitions around the world.

Over the years the local economy has not been hit by any major crisis. Moreover, the employment situation has fostered the integration of foreign workers even without active integration policy.

Recently, a network of five regions has been created, including the region of L. The partners engage in diversified projects. One of them - labeled innovation region – deals with the expansion of the economic structure. As part of this, the town of L. has started a so-called thinking factory.

Making things better requires technological **innovations**: new or improved products, services and processes or methods of production [2].

Innovation can provide a way out of the present crisis for cities and regions (Drewe,2010a). One may question that the environment of big cities makes its residents significantly more innovative than residents of smaller towns (Johnson, 2010). Medium-sized towns like L. can also cope and by joining a regional network can increase their critical mass. The question is really whether cities and regions qualify as innovative environments. In practice one should reconstruct empirically the innovation process at the nitty-gritty of innovative firms: for example at the firm in L. that represents a success story in the field of innovative lighting. Innovation policies at higher national or European levels more often than not rely too much on framework conditions, financial and others, based on theoretical or hypothetical relationships between presumed enabling factors and innovation.

The crucial question is how to promote innovation. But how to define, measure and explain innovation are questions which need to be answered properly before one can hope to manage innovations successfully (Drewe, 2010b).

How important is the **European Union** for making things better?

The European Commission (2010) in 'Europe 2020' has launched the *Innovation Union* 'to improve framework conditions and access to finance for research and innovation so as to insure that innovative ideas can be turned into products and services that create jobs'. There is a second so-called flagship initiative relevant to industry called *An industrial policy for the globalisation*: 'to improve the business environment notably for SMSEs, and to support the development of a strong and sustainable industrial base able to compete globally'. The EU has invented a Common Agricultural Policy catering some 6% of the total labor force (it is also the most important budget item of the EU). A 'Common Industrial Policy' catering to some 26% of the labor force (again not counting producer services) could also make sense.

The Lisbon Strategy as the predecessor of 'Europe 2020' has been grosso modo a failure. Even the Commission staff in its 'pro domo' evaluation had hinted at this: 'Whilst much [?] has been achieved, the overall pace of implementing was both slow and uneven... Notre Europe (2010) has pointed out that the political failures affecting the functioning of the Lisbon Strategy have not been analyzed by the Commission hence the risk of repeating the same mistakes. Notre Europe has advocated five points:

- a more precise diagnosis
- to limit the strategy to a few objectives, clearly defined and leading to actions
- to distinguish between the interventions on the European level and those on the national level, reinforcing the former
- to reinforce the Open Method of Coordination, including new ways of sanctioning the bad performance of member states or regions
- to adopt a realistic time schedule

May be another point should be added:

- a top down approach to innovation does not suffice: to boost innovation, cities and regions must be taken more seriously

What is at stake here is a *Sustainable recovery* as against a *Sluggish recovery* or a *Lost decade* [3]. Neither a sluggish recovery, leave alone a lost decade are promising. But the three scenarios for Europe by 2020 reveal an important truth: uncertainty rules even beyond innovation and industrial policy (Drewe, 2010c).

One only has to (re)read Keynes to grasp the importance of uncertainty (Skidelsky, 2009 refers) also with regard to long waves of innovation as turning points (Drewe, 2010d).

Notes

[1] For the definition of complexity see Hidalgo & Hausmann (2009)

[2] Note that Schumpeter's definition of innovation also included new forms of organization, new markets and new sources of raw materials or semi-manufactured products.

[3] Three scenarios for Europe by 2020:

- Scenario 1: *Sustainable recovery* – ‘Europe is able to make a full return to earlier growth path and raise its potential to go beyond’
- Scenario 2: *Sluggish recovery* – ‘Europe will have suffered a permanent loss in wealth and start growing again from its eroded basis’
- Scenario 3: *Lost decade* – ‘Europe will have suffered a permanent loss in wealth and potential for future growth’

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