

European industrial policy at a crossroads? Evidence from an expert survey

A modest experiment shows that a specialised Brussels policy audience broadly agrees with Mario Draghi's report on EU competitiveness

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A generalised political consensus appears to exist on the European Union's overarching goal of a competitive and green European economy. The question of how to achieve this, however, is hard to answer. Comprehensive policy packages reflecting many of the trade-offs needed to reach the goal have been put forward by two former Italian prime ministers in reports commissioned to steer the next EU policymaking cycle (2024-2029; Draghi, 2024; Letta, 2024)¹. But do their prescriptions align with other expert preferences and opinions?

We conducted a modest experiment on this, taking advantage of an annual gathering of EU economic and policy experts – the Bruegel Annual Meetings (BAM) in Brussels² – to capture via a survey a small snapshot of expert views on trade-offs related to EU industrial and climate policy. The objective was to shed some light on the policy mood in Brussels, especially in the context of the reports by Mario Draghi (2024) and Enrico Letta (2024), which are likely influence the EU policymaking agenda for the next five years.

Experiment set-up and results

At the 2024 BAM, we asked attendees to evaluate two different policy packages that combine different trade-offs within specific policy fields. We set up two experiments covering, first, industrial policy and, second, climate and energy policy³.

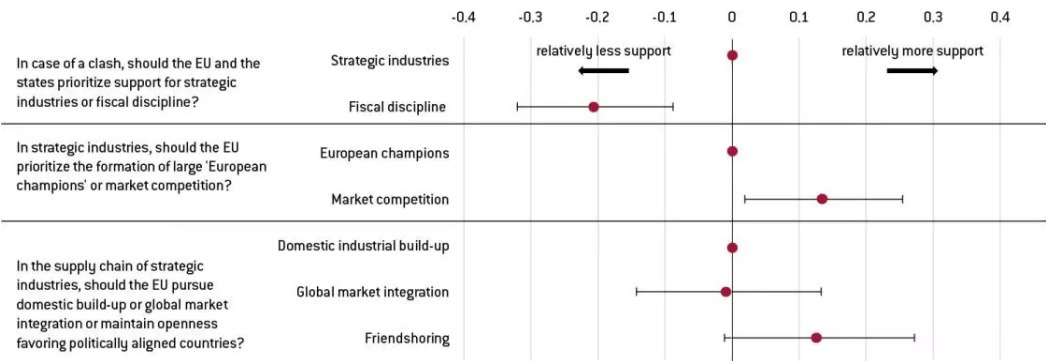
The industrial policy experiment

In this experiment, the policy package involved three different trade-offs relevant to EU-level policy:

- Whether to maintain fiscal discipline or provide financial support to strategic industries;
- Whether to focus on ensuring market competition through competition and merger policy or to stimulate the creation of large ‘European champions’;
- Whether to (i) maintain global trade integration or (ii) build and protect domestic industry or (iii) adopt a policy aimed at maintaining trade openness while favouring politically aligned countries (‘friendshoring’).

The policy packages presented to respondents included one of the options from each trade-off. From the twelve possible combinations (2x2x3), two highly consistent policy combinations can be identified. The first is a *digiriste* economic plan, including provision of financial support for industries, prioritising the creation of European champions and protectionism to support domestic industrial build-up. The second was a ‘*frugal*’ and market liberal package, prioritising fiscal discipline, market competition and global market openness. Through repetition of the experiment and random assignment of policy packages across respondents, we can infer preferences for single trade-offs and of overall policy packages. Figure 1 shows the results.

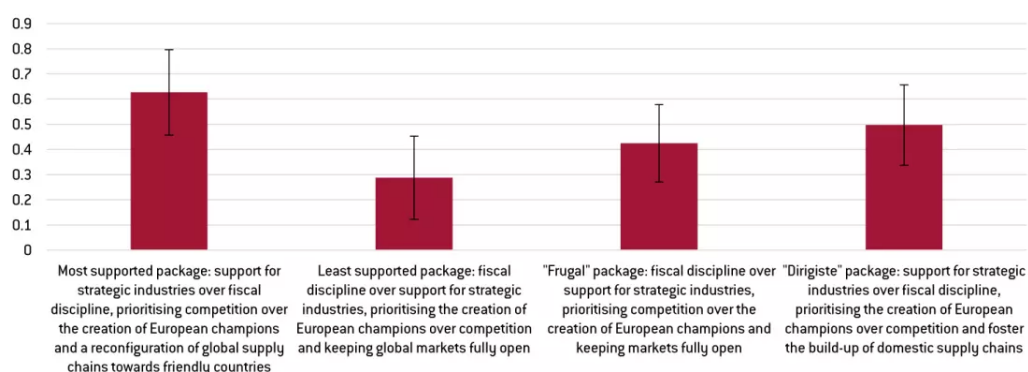
Figure 1: Preferences in the industrial policy experiment



Source: Bruegel. Notes: The ranges show 90 percent confidence intervals. Effective N is 196 and R² of 0.077. The red dots refer to point estimates and are to be read in relative terms within one question. A red dot at zero refers to the ‘baseline’ answer (eg strategic industries). Red dots deviating from zero show preferences relative to the baseline answer (eg fiscal discipline is about 20 percent less preferred relative to strategic industries).

Respondents were about 20 percent less likely to favour fiscal discipline over investment in strategic industries, while support for market competition was on average about 11 percent higher than support for advocating for European champions. Both these effects were statistically significant at a five percent level, indicating a clear preference. On supply chains for strategic industries, respondents were relatively split: marginally (but not statistically significantly so) favouring 'friendshoring' over domestic industrial build-up or global market integration.

Figure 2: Preferences for policy packages in the industrial policy experiment



Source: Bruegel.

Figure 2 shows that the most supported policy package was a hybrid that deviated from both the pure *dirigiste* and the pure *frugal* positions, while mixing characteristics of both: a willingness to spend to support strategic industry, a view that maintaining competition is more important than creating European champions and a belief that friendshoring is preferable to both continued full global market integration and protectionism. The least preferred package also constituted a downward compromise of sorts, mixing policy features that lacked widespread support among respondents.

Letta (2024) and Draghi (2024) both recognise these trade-offs. They acknowledge the constrained fiscal space at EU member-state level and argue for an expansion of EU-level funding. Draghi advocates increased public investment – which he states “*will have some impact on public finances*” – which mirrors survey respondents' views.

On competition, the views of respondents also reflect Draghi's recommendations. He suggested simplifying mergers to scale up European companies and also that such mergers must enhance innovation and maintain competition in the market. Letta (2024)

similarly outlined the need for an EU economic model that fosters large European champions while maintaining competition involving a larger number of smaller firms.

On supply chains, Draghi argued for both the build-up of domestic supply and the diversification of international supply chains (mirrored by the Letta's call for "*fostering strategic partnerships*"). The policy package most supported by our survey respondents is close to the line taken by both Letta (2024) and Draghi (2024)⁴. Forthcoming EU initiatives, in particular a clean industrial deal promised by the new European Commission, will show how many of these recommendations will be picked up.

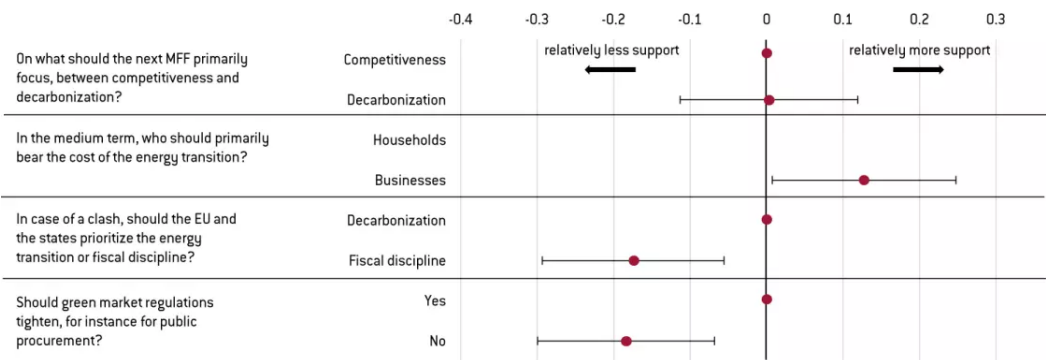
The climate and energy policy experiment

In this experiment, one policy package consisting of four trade-offs was presented:

- Whether the overall objective of the future EU budget (the Multiannual Financial Framework, MFF) should be decarbonisation or competitiveness;
- Whether the long-term distribution of the costs of the energy transition should be borne by households or firms;
- Whether to maintain fiscal discipline or prioritise expenses related to the energy transition;
- Whether additional regulation is necessary or not, for example introducing green conditions in public procurement.

The energy and climate transition experiment thus allowed for 16 combinations (4x4), two of which are 'pure' and fully consistent policy stances. The first pure policy stance is a fully '*climate-oriented*' stance, combining an MFF focused on decarbonisation, businesses financing the transition, which should override concerns about fiscal space, and additional regulatory measures. On the opposite side of the spectrum, there is a '*frugal*' and market-oriented approach, that sees competitiveness as the focus of the next MFF, assigns green transition costs to households to avoid overburdening firms, prioritises fiscal discipline and prefers no additional regulatory burden (Figures 3 and 4).

Figure 3: Preferences in the climate policy experiment

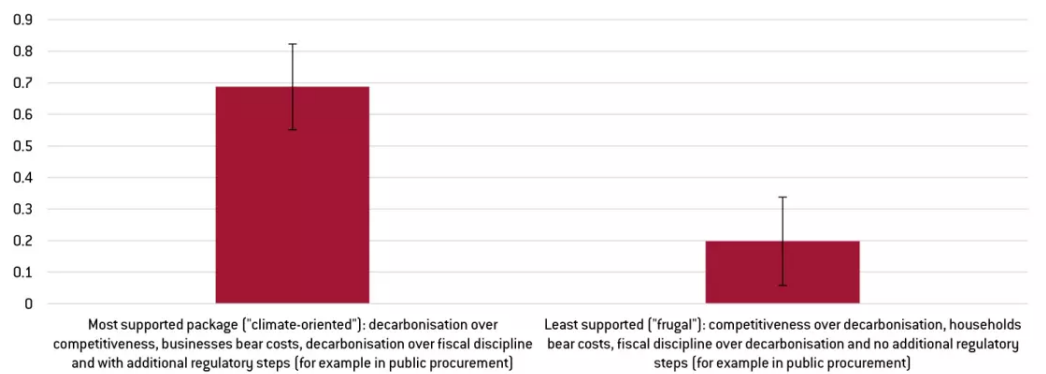


Source: Bruegel. Notes: The ranges show 90 percent confidence intervals. Effective N is 208 and R^2 of 0.089. For explanations, see note to Figure 1.

In terms of the focus of the MFF, competitiveness and decarbonisation were rated similarly. This could imply two things: first, the opinions of experts are mixed, with an equal split between decarbonisation or competitiveness for a given set of other attributes. Or it could imply that respondents are indifferent to the topic and choose the option at random, possibly because of lack of recognition that there is a trade-off in the first place.

For the second option (Figure 3), there seems to be a preference for protecting households over businesses from the cost of the energy transition, though the result is only marginally statistically significant. The third option is whether fiscal discipline or the energy transition should be prioritised. The result is similar to the experiment in industrial policy, with fiscal discipline around 18 percent less favoured than investment in the energy transition. With respect to the last option, tighter regulation is less favoured when examining the policy in isolation.

Figure 4: Preferences for policy packages in the climate policy experiment



Source: Bruegel.

The most popular total policy bundle among our respondents was a '*climate-oriented*' package, in which decarbonisation takes precedence over firm competitiveness and fiscal discipline, while additional regulation is also included and the costs are borne by firms rather than households. Consistent with this, the least-supported package is the '*frugal*' package, which has the opposite priorities. Although respondents preferred less regulation in isolation, they were more open to regulation in combination with other policies that support decarbonisation.

These preferences appear broadly consistent with Draghi (2024), who noted that decarbonisation can enhance competitiveness by lowering energy costs in the medium and long run. Hence, there might not be a perceived trade-off between one or the other. On the distribution of costs, Draghi seems to advocate for cost-sharing among all consumers, even potentially shifting costs away from energy-intensive firms – a view not shared by our respondents, which reflects some of the criticism Draghi's report has received⁵. The preference for additional (or at least a change of) rules on public procurement is again reflected in both Letta (2024) and Draghi (2024), and in our most-favoured package.

Limitations and conclusions

First, the number of respondents to our survey was relatively low⁶. As a result, our results are not very precise.

Second, our sample was possibly not fully representative of the BAM attendance. The survey invitation was included in the post-BAM 'thank-you' email and so only particularly attentive attendees who read the email participated in the survey. In addition, BAM attendees are of course a selected crowd, skewed towards the economic profession, academia and European institutions, and not fully representative of the overall policy-expert population with a professional interest in industrial and climate policy. While the experiment remains internally valid, its external validity is limited.

Third, we focused on relatively simple experiments with few options and combinations, while still pertaining to complex issues, which might have hampered overall understanding by respondents.

Nonetheless, the results offer an overview of preference tendencies of a certain expert audience linked to Brussels. We find statistically significant and intuitive results for both experiments and that many recommendations in Letta (2024) and Draghi (2024) hit the spot in expressing much of the general EU policy mood: ambition on climate policies, while opting for compromises in industrial policy, reflecting the lack of coherence and clarity of the subject.

References

Draghi, M. (2024) *The future of European Competitiveness*, European Commission, available at https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

Letta, E. (2024) *Much more than a market*, report to the European Council, available at <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

Nicoli, F., D. Van der Duin and B. Burgoon (2023) 'Which Energy Security Union? An experiment on public preferences for energy union alternatives in 5 western European countries', *Energy Policy* 183: 113734, available at <https://doi.org/10.1016/j.enpol.2023.113734>

Endnotes

1. See also Simone Tagliapietra, 'Draghi's industrial masterplan has decarbonisation at its core', First Glance, Bruegel, 9 September 2024, <https://www.bruegel.org/first-glance/draghis-industrial-masterplan-has-decarbonisation-its-core>.
2. See <https://www.bruegel.org/BAM2024>.
3. Our experiment was a conjoint experiment, or a survey-based research method used to measure how people weigh up different attributes of a decision by having them evaluate a series of choices in which the attributes are systematically varied. See for example Nicoli et al (2023).
4. Note that the responses to the survey were submitted after the release of both reports.
5. Georg Zachmann, 'Draghi's pitch to improve the competitiveness of energy-intensive industry', First Glance, Bruegel, 12 September 2024, <https://www.bruegel.org/first-glance/draghis-pitch-improve-competitiveness-energy-intensive-industry>.
6. Our sample across both experiments consisted of 49 individual participants. Many opted to respond to both experiments, resulting in 35 responses for the industrial policy experiment and 38 for the climate and energy policy experiment (24 individuals answered both). Given that every respondent rated multiple packages, this yields an effective N of 196 for the industrial policy experiment and 210 for the climate and energy policy experiment.

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