

Still Blowin' in the Wind: Industrial Policy, Distorted Prices, and Implicit Reciprocity

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INTRODUCTION

Structuralist and evolutionary theories agree on the fact that one of the main challenges of development is diffusing technological progress, so as to change the pattern of specialization by incorporating new sectors and reducing inter-sectoral disparities, raising productivity levels and improving income distribution; then, once external constraints are overcome, faster growth will allow for a decline in unemployment and underemployment in the subsistence sector.

Since its beginning in the 1950s, the Structuralist School has focused on the relationship between structural change and economic development. The focus is on how the diversification of the economy may generate spillover effects, backward and forward linkages, and positive technological externalities, which in turn accelerate capital accumulation. Development is based on qualitative change, the upgrading of industries and moving toward more dynamic sectors, with higher rates of demand growth and higher opportunities for technical change.

This chapter argues that undertaking a process of structural change based on the diffusion of technological progress, the upgrading of the production structure and the movement of labor toward high-technology activities and with increasing returns still presents a major and unavoidable challenge for economic development. Furthermore, structural transformation can help ease two other main developmental challenges: distribution and environmental sustainability. This chapter sheds some light on the transformation of the production structure and analyzes the underlying process that affects the pace of structural change, either accelerating it or slowing it down.

Technological capabilities are the engine for these transformations: they are the basis for the expansion of production and employment at the

firm, sector, and industrial levels. Building and accumulating technological capabilities requires a continuous process of learning, time, and resources. The nature of learning processes tends to change according to the sector, the production environment, and the type of activities performed. When the Structuralist School developed its pioneering works in the 1950s and the 1960s, some sectors (such as manufacturing) were recognized to be able to boost learning activities more than others. Nowadays, learning has probably become more transversal across sectors and more related to specific highly technological-intensive activities in different sectors, which makes it an even more difficult process to analyze.

One of the main contributions of the Evolutionary School is having looked into the “black box” of these learning dynamics at the micro level. At least since the beginning of the 1970s, it has been recognized that in developing economies productivity growth relies on borrowing, imitating, mastering, and improving on the advanced technology used by countries that have reached the technological frontier. Significant factors favoring this process include the literacy and skill level of the workforce, the skills and technical competence of engineers and designers, and (increasingly) the existence of managers capable of running complex organizations efficiently (Dosi et al., 1990).

Given its peculiarities and its importance for long-term economic growth, the generation of technological capabilities and the transformation of the production structure in developing economies should not be left at the mercy of market forces and at the volatility of market signals (Cimoli et al. 2009). The idea that successful catching up requires active industrial policies¹ has only gradually reached mainstream economics. On the other hand, this is a well-established point in the tradition of economic history and heterodox growth theory,² where industrial policies represent the fundamental tools for reducing the technology gap and increasing international competitiveness.

However, active industrial policies are a necessary condition for reducing technological asymmetries and boosting structural change. In addition, a certain degree of coordination across economic policies has to be pursued too, and macroeconomic priorities should be set consistent with innovation and industrial targets. Obsessively pursuing what are believed to be the “right” macroeconomic prices can nullify the efforts of even the strongest industrial policy. For example, a decrease (appreciation) of the real exchange rate (RER) may induce a destruction of existing technological capabilities, when this appreciation is so strong or its volatility so high to affect negatively the development of strategic technological sectors by limiting their export performance and their expansion.

Even this “structuralist recipe” of active policies may turn out to be just a naive theoretical exercise for structural change, in practice unable to attain its goals in developing countries affected by a widening technology gap. In order to carry on with the process of structural change, the industrializing and catching-up countries have to expand their effective demand and to import from abroad the technological and capital goods that they need