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The New EU Industrial Policy: Opening Up New Frontiers for Financial Capital

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Abstract

The EU has implemented a whole array of industrial policy programmes over the past decade to bolster the competitiveness of selected knowledge-intensive industries and to induce a digital and green transition. Responding to shifting competitive challenges in global capitalism, and the adoption of industrial strategies by other major economies, the new EU industrial policy seeks to onshore manufacturing capacity in sectors of geoeconomic importance, and simultaneously reduce dependencies on global value chains. Drawing on a historical materialist perspective, this article historizes and contextualises the financing strategies adopted within EU industrial policy. Faced with tight budgetary constraints, and deficit spending not being an option at the EU level, unlocking private investment takes centre stage, such as by tapping into capital markets or using member state aid or EU structural funds as a precursor, as well as by incentivising private investments through risk-absorbing financial instruments that rely on the EU budgetary resources. As will be shown, the EU has been experimenting with such risk-absorbing financial gimmicks for industrial policy purposes since the 1990s; yet, their usage has reached unprecedented levels with the heightened geoeconomic tensions since the 2008 and Covid-19 crises. The article demonstrates moreover that organised factions within financial and industrial capital have actively advocated for public safeguards, and that their deployment thus is not merely a functionalist response to shifting power dynamics or a desperate last resort in the absence of a supranational fiscal policy.

Keywords

capitalism; European Union; finance; financial capital; industrial policy; risk

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1. Introduction

Alarmed by rising geoeconomic tensions and the adoption of vast industrial policy programmes around the world, the EU has launched a series of industrial policy initiatives over the past decade. Similar to Made in China 2025, Make in India, or Build and Buy America, EU programmes are reminiscent of a "Make Europe Great Again" strategy that aims at positioning the single market as a global hub for knowledge-intensive high-tech and digital industries (European Commission, 2023c). Confronted with the risk of sliding into a similar trade war with China as the US, the EU seeks to onshore a range of selected high-value-added industries and reduce dependencies on global supply chains, notably in industries where Chinese manufacturers have been catching up rapidly, such as in energy renewables, electric car batteries, or electronics (European Commission, 2014a, 2017b, 2023c). Furthermore, sponsoring such industries should put the EU on track for reaching the net-zero emission goals set for 2050, and counteract the increasing trade deficit with China. By deepening intra-EU economic ties, manufacturing products should be exported with the label "Made in Europe" (European Commission, 2020b).

The European Commission (hereafter the Commission) estimated that only for scaling up manufacturing capacities for net-zero technologies and products more than €700 billion of *additional* annual investments will be needed until 2030 (European Commission, 2023a). This raises the question of how the new EU industrial policy is being financed, and, by extension, who is accumulating the profits, and who is controlling the innovation process and for what purpose. Understanding the redistributive consequences of EU industrial policy and its financing is particularly pertinent when considering that the EU has a budget comparable to that of Denmark, and cannot run a deficit or take on debt, while not every EU member state has much fiscal leeway, especially in the context of the strict debt and deficit rules of the Economic and Monetary Union. This article shows that, in addition to non-reimbursable EU grants or state aid, a whole arsenal of risk-absorbing financial instruments has been developed to unlock private sector loans, private equity or quasi-equity investments, or what the European Commission (2023b) refers to as crowding in investors. These instruments often rely on the EU budget or the liquidity reserves of EU and national development banks as a revolving guarantee fund, and tend to be coupled with other forms of state aid, non-repayable EU grants from one or several of the 43 programmes of the EU structural funds, or funding retrieved on capital markets (European Commission, 2023a).

This article adopts a historical materialist perspective, which is particularly well equipped for historicizing the financing strategies in the evolution of EU industrial policy and locating the interplay between industries and the EU state apparatus against the backdrop of shifting geoeconomic rivalries. As will be shown, industrial capital has been firmly embedded in a dialogue with the EU state institutional body to discuss challenges and co-develop industrial policy responses, notably in the wake of the weak recovery from the 2008 financial crisis and the 2020 pandemic slump. At the same time, financial capital has also been closely involved and has managed to carve out a powerful position in deciding whether or not to invest and under what conditions. Organised labour and other societal interests, in turn, have been factored out.

The article contributes to the political economy literature on the revitalisation of EU-level industrial policy in several ways. Although much attention has been paid to how EU statecraft seeks to redefine geoeconomic power dynamics (Aiginger & Rodrik, 2020; Bulfone, 2023; Di Carlo & Schmitz, 2023; Lavery, 2023; McNamara, 2024; Schneider et al., 2023; Seidl & Schmitz, 2024), the intertwinement of public-private financing has often

sailed under the radar, leaving important questions about its redistributive effects untouched. Exceptions are scholars who have documented the growing importance of the European Investment Bank (EIB) Group, which operates a quasi-fiscal EU body that, in addition to loan provision, has been de-risking private investments for decades (Cooiman, 2021; Gabor, 2023; Griffith-Jones & Naqvi, 2021; Mertens & Thiemann, 2019). While Gabor (2023) and Cooiman (2021) speak of a de-risking state under financial capitalism, Mertens and Thiemann (2019) observe a "hidden investment state," emphasising the opaque nature in which the EIB Group subsidises the profits of private investors while socialising the risks. As will be shown here, the EIB Group continues to form a cornerstone in the financing of EU industrial policy; yet, EU industrial policy financing strategies expand beyond the development banks, which amplifies the intransparency further.

Political economists who focus on industrial policy have conceptualised the EU as a "catalytic state" that connects agents and scattered organisational and financial resources as if it were a neutral or "honest" broker that merely solves collective action problems (Di Carlo & Schmitz, 2023; Prontera & Quitzow, 2022). Or scholars actively advocate an "entrepreneurial state" that should take over the role of risk taker and market shaper, fill the financing gap, and lead investments and stimulate innovation (Aiginger & Rodrik, 2020; Mazzucato, 2018). The state–capitalism nexus in the (re-)production of power asymmetries, and the redistribution of wealth, is often not further discussed, theorised, or analysed (an exception is Van Apeldoorn & de Graaff, 2022). Industrial policy is also sometimes subsumed under "state capitalism," defined as states scaling up their roles as promoters, supervisors, and owners of capital, and using an "extremely wide array of practices, policy instruments and vehicles, institutional forms, relations and networks that involve the state to different degrees and at a variety of levels, time frames, and scales" (Alami & Dixon, 2020, p. 71; see also Babić, 2023; Schindler et al., 2022). This article, in contrast, perceives EU industrial policy as part of the "capitalist state" (see also Germann, 2023; Lavery, 2023; Schneider et al., 2023). What may seem merely semantic has important ontological implications: States, or incomplete state-like apparatuses like the EU, do not control investments or the production process through industrial policy, but rather selectively sustain particular capital accumulation patterns.

The article draws on a critical reading of EU policy documents and position papers of organised interests. Section 2 delineates the key ontological dimensions of a historical materialist take on the capitalist state and industrial policy. Sections 3 and 4 sketch in broad strokes the evolution of European Community-level industrial policy and its financing from the postwar era of European integration to the neoliberal state restructuring, where risk-absorbing gimmicks gradually have made their inroads. Section 5 zooms in on the heightened utilisation of such gimmicks over the past decade. The conclusions reflect on the agency and privileged role of financial capital, and the limits of debt-led accumulation patterns in the current geoeconomic conjuncture and the climate emergency.

2. A Historical Materialist Perspective on the Capitalist State and Industrial Policy

Historical materialism foregrounds the constant and constitutive role that states and state regulation play in the expansion and reproduction of global capitalism, and the multiple asymmetries in wealth and power arising from it within and across geographical spaces, and social classes. Rather than being neutral arbiters or honest brokers, states or state-like entities like the EU are perceived as asymmetrical institutional terrains that through regulation legitimise, codify, and formalise the capitalist social relations of (re-)production, and, in this process, reproduce their own institutional authority and political legitimacy, which renders states capitalist

themselves (Jessop, 1999; Van Apeldoorn, 2013). Those who control a society's productive resources enjoy a powerful position, and the outcomes of past struggles are inscribed in state institutional settings, which renders the state as a site and a centre of power to be structurally biased (Poulantzas, 1978, pp. 127, 132). Notwithstanding this, states are not mere conveyor belts for the interests of capital above labour but retain a relative autonomy, a certain "strategic selectivity" to promote or obstruct specific interests, coalitions, and action possibilities, and, by extension, they impinge on, or ease, specific logics of capital accumulation (Jessop, 1999, pp. 44–45). States can be strategically selective by virtue of their ability to provide general conditions for the continued accumulation of capital and the social antagonism revolving around capitalist competition. This competition pits not only capital against capital, capital against labour, and labour against labour, but also precipitates the agglomeration of unevenly distributed regionalities, or what Trotsky (1977) coined as "uneven and combined development" whereby advanced production and labour processes are concentrated in some areas, and less advanced ones are diffused in others. As capital usually flows where the rates of return are highest, or where a stable income stream can be generated, provided that the conditions for its reproduction are more favourable elsewhere, state regulation can seek to intervene in the redifferentiation of the conditions of production, and impact on the geographical asymmetries on which global capitalism is based. It is here where the geoeconomic nature of industrial policy is rooted.

Capital accumulates through the exploitation of labour and nature; yet, the broad categories of capital and labour are not seamless monolithic entities but internally fractionalised in multifaceted ways across various axes and stages in the capitalist cycle, with shifting hierarchies over time and space (Jessop, 1999; Poulantzas, 1978). For example, while national and transnational industrial capital is invested in the production of goods and services, financial capital, as a fictitious form of capital, thrives on extracting value from the realm of production, such as through the extension of debt, or other rent-generating income streams (Hudson, 2021). Although all surplus capital is temporarily fictitious prior to being valorised through a profitable reinvestment in the sphere of exchange or production, profits can continue to accrue through financial channels rather than trade or commodity production. Financial circuits of accumulation can come to prevail if the regulatory environment allows for it (Krippner, 2011, pp. 27–28).

Class fractions that emanate from different accumulation regimes can be confronted with varying competitive pressures and hold contrasting views on how the economic realm ought to be regulated, which renders unified class positions for a strategic direction of the agenda-setting, decision-making, and implementation of state regulation difficult to attain. Common identities and demands continuously need to be forged and (re-)negotiated. To win the consent of others, class fractions often have to articulate a strategic orientation beyond their immediate interest, which is why, in addition to a state's strategic selectivity, political influence and power cannot simply be assessed by tracing lobbying activities (Van Apeldoorn, 2013). Furthermore, industrial policy can cater to multiple interests simultaneously, especially as it tends to come in "packages of interactive measures and strategic coordination" (Andreoni & Chang, 2019, p. 146). Such packages can attenuate in-built class rivalries, such as by giving labour or other interests a say in the orientation and control of investments and innovation, or privilege industrial capital associated with either ascending or descending accumulation patterns without attempting to achieve consent from contesting groups in the form of (material) concessions. The focus can lie on stimulating or curbing the exposure to capitalist competition, and thereby subsume competition policy. Industrial policy can also take shape as investment policy, such as by enabling the spatial dispersion of reinvestment opportunities or by reaching out to financial capital and direct investments into a particular direction.

Following from this, historical materialism underscores the historically contingent and open-ended nature of political struggles that gives shape to the state–capitalism nexus. The historical contingency is also inscribed in the very nature of the EU as an incomplete, rescaled, multi-scalar, and multi-level state-like apparatus with a continuously evolving set of supranational and intergovernmental competences. As the next two sections demonstrate, industrial policy and its financing are testimony to this: Although industrial policy became a shared competence only in the 1990s, supranational industrial strategies and its financing have given shape to European integration at the outset.

3. Charting the Evolution of Community-Level Industrial Policy and Its Financing

Industrial policy was a key pillar of European integration, starting with the European Coal and Steel Community of 1952, which can be seen as an industrial policy *par excellence*. The European Coal and Steel Community ensured corporate access to coal and steel, two resources that were essential for energy-intensive and fossil fuel-based Fordist accumulation patterns of Western capitalism. In addition to price, quality, output controls, and working conditions, the European Coal and Steel Community also coordinated member state loans, subsidies, and grants for upgrading coal and steel industries and related infrastructures (European Community, 1966). And even though the Treaty of Rome establishing the European Economic Community in 1958 did not include industrial policy as a designated Community-level competence, it can be seen as a meta-level industrial policy: Through the reconfiguration of several markets into one giant common market, it sought to establish the conditions for economies of scale and scope production. Importantly, its preambles declared a high degree of competitiveness as an overarching community goal, which laid the foundations for integrating industrial policy objectives in various policy areas, like competition, transport, and trade policy, alongside sectoral policies like energy or the common agricultural policy (Pelkmans, 2006, p. 8).

Industrial policy during the postwar decades has been characterised as "inward-looking" (Bulfone, 2023). Indeed, there was a conviction that some industries, and to a lesser degree also workers, had to be cushioned from "external" shocks that came with the gradual exposure to the trade re-liberalisation at international level (Jessop & Sum, 2006, pp. 124–125). At the same time, industrial policy was imbued with strong geoeconomic rationales, responding to "outside" competitive pressures stemming from the dominance and technological superiority of US industries in the market for high-value goods (Servan-Schreiber, 1968). As Commission President Hallstein argued at the time, the purpose of "the transformation of the market relations in the European Community as a whole was to build a new giant big enough in a world of giant powers" (cited in Freyer, 2006, p. 282).

The need for an industrial policy was widely endorsed at national and supranational levels, albeit to different degrees (Warlouzet, 2014). While member states imposed concrete industrial programmes, the European Community exerted its statecraft through the imposition of protectionist tariffs, quotas, and non-tariff barriers to limit imports, and through the enforcement of supranational competition laws, a domain where the Commission was equipped with unmatched discretionary powers, without the European Parliament or the Council having a say (Wigger & Buch-Hansen, 2013). Based on Articles 85 to 94 (in the Lisbon Treaty, Articles 101 to 109), the Commission sought to create Eurochampions through facilitating all sorts of cross-border alliances, joint ventures, distribution and supplier agreements, as well as the cross-licensing of intellectual property, or franchising contracts, alongside an overall permissive stance towards cross-border

economic concentration (Hayward, 1995). The Commission left public monopolies in key utility sectors untouched, which translated to beneficial downstream effects for all sorts of industries, such as lower prices for energy, water, transportation, postal services, or telecommunications (Bovis, 2014, p. 32).

Supranational competition control was also pivotal for the financing of national industrial policies. The Commission generously permitted direct or indirect forms of state aid, such as subsidised loans and financial guarantees, financial support in the form of government grants for investments or R&D projects, tax reductions or guaranteed preferential public procurement contracts, and export assistance. Recipients were industries lagging behind US counterparts, such as computing and aerospace, and industries considered "too important to fail," such as agriculture, steel, coal, electricity, car, textiles, shipbuilding, infrastructure, or defence (Warlouzet, 2014, p. 228). Industrial policy and its financing through state aid enjoyed the vast political support of an inter-class alliance between organised industrial capital and labour. Against the backdrop of unseen GDP growth rates averaging 4 percent between 1950 and 1973, corporate profits tended to be reinvested to maximise productivity growth, as a result of which the stock of gross-fixed capital formation in European manufacturing industries doubled from 1960 to 1973 (Hobsbawm, 1994, p. 261). During the postwar boom, industrial capital yielded to the (wage) demands of the predominantly male labour force, while financial capital was largely subordinate to the interests of industrial capital and constrained to member states by the Bretton Woods capital controls.

When the Great Stagflation Crisis of the 1970s hit, member states stepped up their industrial policy measures. The Commission initially permitted the "ever-rising tide of restrictive agreements, concentrations and protectionist national subsidies" (Cini & McGowan, 1998, p. 27). To deal with overproduction, overinvestment, and overcapacity in steel, shipbuilding, chemicals, man-made fibres, and textile industries, the Commission also authorised "crisis cartels," which it justified on the basis of public interest, the restoration of full employment, and regional development and technological progress (European Communities, 1977). When the "new protectionism" failed to alleviate the economic downturn, industrial policy and state aid were increasingly criticized for rescuing lame ducks and sunset industries that have lived past their glory times, and for exacerbating what was referred to as the "Eurosclerosis" (Giersch, 1988). As outlined in the next section, industrial policy did not disappear with the neoliberal political project.

4. Industrial Policy and Its Financing During the Ascendancy of Neoliberalism

From the mid-1980s onwards, Community-level industrial policy came to embody the shift from Fordist to post-Fordist accumulation patterns where labour-intensive medium- and low-technology manufacturing was offshored to cheap labour areas, and service and financial industries began to prosper. Ascending fractions of transnationalizing industrial and financial capital, and fractions revolving around the service industries, advocated restoring economic growth through a dismantling of all sorts of market barriers, reducing corporate taxes, flexibilizing labour markets, suppressing wages, deregulating financial markets, and relaxing lending standards, alongside a monetarist focus on maintaining low inflation (Wigger & Buch-Hansen, 2013). State aid was still considered legitimate in some areas, such as the case of car manufacturers that faced competitive pressures from US, Japanese, and later also Korean producers; however, in others, it was compared to "woodworms eating away the carcass of the ship of integration" (Andriessen, 1982, p. 6). The Commission started to make inventories of "anti-competitive" state aid schemes and encroached on a naming and shaming campaign by publishing the size of state aid granted by each member state (Wilks,

2005, p. 124). With the imposition of new state aid conditionalities, the enforcement of competition laws became more stringent, and the Commission started to prosecute unauthorised state aid before the European Court of Justice (Wilks, 2005, p. 124). Community-level industrial policy focused instead on encouraging and monitoring industrial "restructuring" and "rationalisation" plans (European Communities, 1981). The budget deficit and public debt rules of the Economic and Monetary Union in the 1990s curtailed the financing of industrial policy further: From 1992 to 2011, overall EU state aid levels were reduced in half (Schito, 2021, p. 279).

At the same time, the Treaty on the Functioning of the European Union of 1992 declared industrial policy as a shared competence, which empowered the Commission to propose concrete industrial policy programmes (see TFEU, Article 173). Although the content and form of supranational intervention remained undefined, its scope was limited to horizontal measures only, such as securing framework conditions favourable to industrial competitiveness. Throughout the 1990s, and especially with the launch of the Lisbon Strategy and its successor strategy Europe 2020 from the 2000s onwards, EU industrial policy increasingly took shape as public-private partnerships that focused on stimulating innovation and R&D in high-tech manufacturing, infrastructure development, and technical education and training meant to raise the skills in the labour force (Avdikos & Chardas, 2016; European Commission, 2005). Geoeconomic rivalries once more gave the impetus for the redefined EU industrial strategy. To keep pace with competitors from the US, Japan, and South Korea in the ICT and related industries revolving around Silicon Valley in California or Route 128 in Boston, organised transnational industrial capital, such as in the formation of the European Round Table of Industrialists, pushed for EU support in bolstering knowledge- and technology-intensive high value-added production, such as labour-related measures in the form of benchmarking lifelong learning to transform the EU into a knowledge-driven economy and the flexibilisation of labour markets (Van Apeldoorn & Hager, 2010, pp. 218–210). With the ensuing deindustrialisation and the transnationalization of production, wage pressures increased and organised labour in manufacturing was weakened considerably (Bieler, 2005). And what was not paid out in wages found new outlets in the liberalised financial circulation sphere: The extension of debt and the trading of debt instruments led to an alternative and more profitable capital circuit alongside commodity production and trade, triggering a situation whereby investors channelled ever more surplus capital into financial markets where anticipated profits were higher (Schneider et al., 2023, p. 256).

With the proliferation of public-private partnerships, financial capital made its inroads into EU industrial policy. The EIB evolved as an active promoter of public-private co-financing for industrial policy purposes (Liebe & Howarth, 2019). Already in the late 1970s, it adopted instruments that partially covered investor losses in addition to facilitating grants and equity investments (Griffith-Jones & Naqvi, 2021, p. 96). The usage of such instruments increased with the advent of the European Investment Fund in 1994, which was itself the result of private-public co-financing, and with private financial institutions taking a seat in its governing board (Cooiman, 2021, p. 8). From the 2000s, the EIB and the European Investment Fund, which together form the EIB Group, became the single largest lender for public-private partnership projects, making use of "increasingly complex financial instruments and products" that created investment opportunities for a whole array of financial intermediaries and institutions beyond commercial banks, such as private equity funds, angel investors, and venture capitalists (European Court of Auditors, 2023, p. 6). These were all financial players that, compared to the US, had hitherto played a significantly smaller role in the EU (European Commission, 1998). The usage of such instruments proliferated beyond the EIB Group,

when EU structural funds were gradually opened up for financing risk-absorbing instruments to provide loans or equity to corporate recipients without the risks that were usually involved (Bovis, 2014, p. 94).

As the next section demonstrates, with the revitalisation of EU industrial policy after the 2008 and the Covid-19 crises, the deployment of such instruments increased further.

5. Risk Socialisation as a Financing Pillar for the "New" EU Industrial Policy

EU industrial policy gained prominence in the wake of the 2008 global financial crisis and remained a high priority during the Covid-19 crisis and the ongoing climate emergency. When the 2008 crisis transmuted into a sovereign debt crisis, economic growth lingered, intra-EU value chains and intra-EU trade decreased, and, in most EU economies, private investments in the formation of fixed capital, as an indicator for investments in the production economy, fell to its lowest level (European Central Bank, 2014). Emerging economies like China and India doubled their share of global GDP between 1990 and 2010, while the EU share declined from 25 to 15 percent during the same period (Lavery, 2023, p. 337). Geoeconomic tensions intensified when China and India adopted industrial programmes to transform their economies into high-tech manufacturing hubs in strategic value chains, alongside nearly a hundred other states that launched some form of industrial policy, accounting together for more than 90 percent of the global GDP (United Nations Conference on Trade and Development, 2018).

A coalition of national and transnational industrial capital demanded to put industrial competitiveness at the centre of EU policy-making, especially after Chinese foreign direct investment (FDI) had seized control of a few EU-based hi-tech companies (European Round Table of Industrialists, 2013, 2014; Federation of German Industries, 2014; Joint Declaration of Industry Representatives, 2017; Lavery, 2023). The Commission subsequently heralded a "European industrial renaissance" and promised measures that would increase the manufacturing share in the EU GDP to 20 percent by 2020, thereby closely echoing the European Round Table of Industrialists' similarly titled position paper (European Commission, 2014a; European Round Table of Industrialists, 2014). These measures initially sought to improve the price and cost-competitiveness of manufacturing through internal devaluation, especially as currency devaluations were not an option to induce export-led growth within the Economic and Monetary Union's "iron cage" (Ryner, 2015). A range of flanking policies were adopted that did not require public funding, such as the introduction of competitiveness proofing to eliminate existing EU legislation considered too costly for business and to screen new laws for their impact on industrial competitiveness. Similarly, by blending industrial policy initiatives into existing EU policy areas and funding structures, additional public spending was not necessary. For example, in 2014, Smart Specialisation, a programme aimed at catalysing the transition of manufacturing sectors to innovative Industry 4.0-type technologies like robotics, the internet of things, and artificial intelligence, was subsumed under EU Cohesion Policy and the Cohesion Fund (Di Cataldo et al., 2022). As part of the Renewed EU Industrial Policy Strategy in 2017 and following up from the 2013 European Steel Action Plan and the 2016 Defence Action Plan, the Commission announced the launch of action plans for almost every imaginable industry—most of which would not require public funding (European Commission, 2017b).

Political pressures for "a genuine European industrial policy strategy" intensified when, in 2019, the German and French ministries of economy and finance outlined a joint vision for the EU to become a "manufacturing powerhouse in 2030" (German Federal Ministry of Economic Affairs and Energy & French Ministry of

Economy and Finance, 2019). Coinciding with the European Green Deal of 2019 as the EU's new "growth strategy," EU industrial policy was reinvigorated in the name of digital and green transition, suggesting that the digitalisation of industries would serve as a key enabler for decarbonizing capitalism. Amongst others, the post-pandemic recovery programme NextGenerationEU of 2021, and the Chips Act and the Digital Single Market Act of 2022 were adopted, which alongside a wide range of greening initiatives sought to reduce dependencies on global semiconductor and microchips value chains, and move industries ahead of the global digital supremacy race respectively. The green growth strategy received new momentum with the 2023 Green Industrial Plan as a geoeconomic counterproject to the 2022 US Inflation Reduction Act, a $400 billion package of conditional subsidies, tax breaks, and loan guarantees to ease investments into US-based clean-tech industries. Responding to organised industrial capital fearing disastrous consequences for industrial ecosystems in the EU (European Round Table of Industrialists, 2022), Commission President von der Leyen (2023a) assured that the EU would do whatever it takes to support industries in winning the race for leading green technology value chains. As part of a "selective fortification strategy" for industries of key geoeconomic significance (Lavery, 2023), REPowerEU, the EU Net-Zero Industry Act and the Critical Raw Materials Act were adopted with the aim of reducing energy imports, enable corporate access to raw materials around the world, and ensure that 40 percent of the new green technologies will be homegrown by 2030 (European Commission, 2023c).

The green growth plans come with a variegated financing strategy that exceeds the reliance on existing EU funds. To begin with, the Directorate-General for Competition generously allowed for state aid for so-called game-changing industries, like batteries, microelectronics, hydrogen, and cloud computing within the Treaty-based possibility that allows for a public financing of Important Projects of Common European Interest. Unlike traditional state aid, Important Projects of Common European Interest can be fully financed with non-reimbursable grants, without imposing a limit. At the same time, "ordinary" state aid control has also been lifted until 2025 for all public investments into the same net-zero technologies as targeted by the US Inflation Reduction Act (European Commission, 2023d). The Directorate-General for Competition even allowed for exceeding US state aid levels, such as in the case of Germany seeking to attract a battery producer that had already secured state aid in the US (European Commission, 2024b). Eventually, however, state aid should only be a temporary measure and be phased out by the completion of the Capital Markets Union, which aims at facilitating corporate financing beyond bank loans (von der Leyen, 2023b).

In addition, tapping into capital markets has also become a financing strategy for EU industrial policy programmes, where the Commission, mandated by the Council, issued bonds on the basis of the collective triple-A rating of the EU-27 (European Commission, 2023c). So far, NextGenerationEU constitutes the biggest borrowing programme in EU history, but REPowerEU is also being financed through obtaining collective debt (European Commission, 2023c). In addition, EU industrial policy is increasingly being financed through the deployment of public guarantees and counter-guarantees that should seduce financial capital to invest, such as by covering an agreed amount or percentage in the case of a loan default, or unrealised profit in the case of equity or various forms of quasi-equity investments, a type of financing ranking between equity and debt (European Commission, 2020a, p. 6). In 2020, the Commission managed 36 different risk-absorbing instruments, of which 23 targeted beneficiaries within the EU (European Commission, 2020a).

Using the firepower of instruments that back up investor liabilities should minimise "budgetary outlays for the public sector": Whereas non-reimbursable grants can only be spent once, the EU budget is expected to

work like a revolving guarantee fund that can be reused multiple times to de-risk financial capital and unlock ever more private investment (European Commission, 2018). To facilitate the usage of such instruments, the Financial Regulation that governs the EU budget has been reformed to allow for a greater variety of risk-sharing modalities, and for blending them with other forms of public support, as well as for including a wider range of financial intermediaries (European Court of Auditors, 2023, pp. 27–29). In addition to EU and national development banks, international financial institutions like the World Bank, national promotional banks, as well as private commercial banks, sovereign wealth funds, private equity, angel investors, or venture capital institutions can also make use of EU budgetary safeguards (European Commission, 2017a). The reform also introduced a Common Provisioning Fund, a safety buffer that should cover contingent liabilities to avoid losses in the annual EU budget. In addition, the General Block Exemption Regulation No. 651/2014, which exempts financial instruments from the state aid notification requirement, has been adopted to encourage member states to make more use of such instruments instead of non-reimbursable grants (see Commission Regulation No. 651/2014 of 17 June, Article 21(13)). The Commission's rationale was that financial intermediaries were beneficiaries in their own right, despite the fact that they "must be managed commercially and their managers shall take investment decisions in a profit-oriented manner" (European Commission, 2014b).

These reforms paved the way for the adoption of a series of EU risk-bearing facilities, such as the European Fund for Strategic Investments for mobilising private funding for risky infrastructure and innovation projects, and the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), which partially covered the risks of more than a thousand registered financial institutions when providing loans to SMEs (European Commission, 2018). According to the Commission, these risk-bearing facilities have contributed to mobilising more than €500 billion during 2015–2020 (European Commission, 2024a). When they expired in 2020, InvestEU was adopted for the 2021–2027 budgetary cycle with the aim of bringing all the instruments under one roof and facilitating the procedures. Drawing partly on the debt-financed budget of NextGenerationEU and the EU budget, InvestEU offers a guarantee of €26.2 billion, which, on the basis of a multiplier effect of 1:14, should mobilise at least €372 billion of private investment until 2027 (European Commission, 2024a). While 75 percent of InvestEU is reserved to back up financial instruments issued by the EIB Group, the remaining 25 percent are being used for backing up loans, equity, or quasi-equity investments by other financial players, such as private investors with a public service mission, private equity and other venture capital institutions, or other investment companies, which the Commission can sign up as implementing partners at any given time (European Commission, 2024a). Importantly, although InvestEU was entrusted with a "green" mandate, only 30 percent of the programmes need to target green transition investments (European Commission, 2024a).

Financial capital has been closely involved in designing the various safe harbour possibilities for investors. For example, the vast majority of more than 4,000 pages of feedback to the 2013 green paper *Long-Term Financing of the European Economy* stemmed from financial sector representatives (European Commission, 2014b). Respondents, like the European Financial Services Roundtable, argued that such public safeguards were urgently needed, especially as the liquidity requirements imposed in the wake of the 2008 crisis had led to unintended contraction in longer-term funding of the economy, forcing financial players to focus on "funding loans with shorter tenors" (European Financial Services Roundtable, 2013a, 2013b, pp. 3, 7–8). The Association for Financial Markets in Europe demanded a higher public risk coverage for a wider array of private investors and the lowering of thresholds and requirements for private investors, such as by reducing

the minimum requirement for private sector co-investment from 50 to 20 percent only (Association for Financial Markets in Europe, 2013). This Association, together with several other financial sector organisations, also reached out to organised industrial capital, like BusinessEurope, when demanding that a greater variety of financial market actors should be included in EU risk-absorbing instruments (Association for Financial Markets in Europe, 2017; see also BusinessEurope, 2016, pp. 6–7). And when InvestEU was drafted, financial capital suggested that the private sector should take the lead whenever investments were profit-making, and that the public sector should intervene whenever a project was making a loss (European Financial Services Roundtable, 2019). BlackRock, the world's largest asset manager, and one of the biggest shareholders of the top European banks, advised the Commission on "acceptable levels" of private sector risks (European Commission, 2013a). The Commission reiterated these demands and argued that the EU had to step in whenever private investor risks were too high, or the return on investments would take too long to be realised (European Commission, 2013b, 2017a).

The expansion of public risk-coverage instruments, often without any strings attached, also led to contention. Organised labour at the EU level criticised "an economy dependent on and driven by financial markets" and demanded the inclusion of conditionalities like pay raises and better working conditions (European Trade Union Confederation, 2023). Moreover, a report commissioned by the European Parliament pointed to the democratic shortcomings that came with the complex and nontransparent "galaxy of funds and instruments around the EU budget" (European Parliament, 2017). As the Parliament can only approve or reject the EU budget, it lacks the right to make amendments to annual commitments and payments made related to EU programmes or funds, and as risk-absorbing instruments are usually adopted by Council regulations, the Parliament is not consulted in the legislative process (European Court of Auditors, 2023, p. 32). The Parliament also lacks oversight rights and intervention possibilities for instruments deployed off-budget, such as in the case of collective borrowing through capital markets, or in the case that the Common Provisioning Fund, the safety buffer for covering contingent liabilities, would be exhausted and defaults affect the EU budget (European Court of Auditors, 2023, pp. 4, 33).

6. Conclusions

Industrial policy as a response to shifting geoeconomic challenges has been a constant feature in European integration to counter competitive threats, but the financing strategies have diversified over time. Different forms of state aid, traditionally associated with industrial policy financing during the postwar reconstruction era and the crisis of the 1970s, have certainly undergone a revival now that the EU seeks to keep up with the vast industrial programmes of other major economies that seek to bolster domestic high- and clean-tech industries; however, state aid, whether reimbursable or not, is considered merely a temporary measure that comes with an expiry date. At the same time, collective debt financing outside the EU budget has made its entry as an industrial policy financing strategy, debt that is also partially being used to back up the increased usage of risk-mitigating financial instruments, alongside EU budgetary resources that operate as a revolving guarantee fund.

The usage of public money as a safeguard to incentivise private investment may sound politically appealing, notably as it seeks to channel financial capital away from the bloated financial circuit. It may also seem the only option available, given the size of the EU budget and the absence of a supranational fiscal policy; yet, both debt financing and the complex labyrinth of hybrid financing channels that rely on the EU budget

come with major redistributive consequences and impair the democratic position of the European Parliament. Rather than being an instance of "state capitalism" (Alami & Dixon, 2020; Schindler et al., 2022), EU industrial policy opens up new frontiers for capital accumulation. The EU does not invest but instead seeks to leverage investments by private financial capital; after all, the current risk-bearing facility is called InvestEU, and not EUInvest. Alongside ascending fractions of industrial capital in technology-intensive value chains, financial capital is not only a key beneficiary but also enjoys a powerful position: It can make a profit from the loans or equity investments without having to carry all the risks, while (organised) labour, and society at large, has no participatory role in the decision-making about the reinvestment of accrued profits. Importantly, within set parameters, it is financial capital that determines whether or not to invest in EU industrial policy programmes, and who can receive a loan or equity investment on the basis of EU guarantees. Financial capital also sets the investment conditions, notably the amount, the duration, interest rates, and fees. This has also major implications for how we tackle the climate emergency. By handing the reins to financial capital, it is financial capital that determines the pace of decarbonizing capitalism and achieving an emission-free energy transition. Importantly, the public sponsoring of loans implies that the green transition of industries is subsidised by debt. Debt serving as a lever for the green transition not only carries financial risks but debtors will eventually have to prioritise short-term economic growth over long-term ecological and social sustainability, which raises the question of how much more debt we can afford within our planetary boundaries.

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Conflict of Interests

The author declares no conflict of interests.

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