



The rise of European development banking

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Daniel Mertens, Matthias Thiemann, and Peter Volberding, *The Reinvention of Development Banking in the European Union: Industrial Policy in the Single Market and the Emergence of a Field*, Oxford, Oxford University Press, 2021, 352 pp., \$100 (hardcover), ISBN: 978-0-198-85970-3

Hidden in plain sight, courtesy of new and rebooted national development banks (NDBs), a robust and expansive suite of industrial policy practices has emerged across Europe. In *The Reinvention of Development Banking in the European Union*, editors Daniel Mertens, Matthias Thiemann, and Peter Volberding treat readers to a treasure trove of 12 chapters studying 27 NDBs with a combined balance sheet of 1.53 trillion euros, or about 4.6 percent of the total European banking system. To be considered an NDB, the editors specify that a financial institution must meet four criteria: they must have at least 50 percent equity owned by the national government, a long term investment horizon, a promotional mandate for a broad scope of sectors and instruments, and a national (rather than a regional or subnational) scope (p. 5).

The editors and 14 additional contributors identify 2015 as an important turning point in this expansion of industrial policy capacity. On July 22 of that year, then president of the European Commission Jean-Claude Juncker issued a communication that claimed that NDB involvement in Europe-wide investment plans was “necessary to enhance ... impact on investment, growth and employment due to their particular expertise and their knowledge of the local context, business and investor communities as well as national policies and strategies” (Juncker, 2015). He added that member states that didn’t have an NDB should consider setting one up. The timing was auspicious, coming just weeks after the announcement by Premier Li Keqiang of the Made in China 2025 initiative (which inaugurated a new policy to increase Chinese market dominance in key industries), and only six days after Donald J. Trump launched his economic nationalist presidential campaign, promising to “bring back our jobs from China, from Mexico, from Japan, from so many places” (Trump, 2015). If neoliberalism is indeed in a process of dying – as many now contend (Wong, 2020) – then the middle of 2016 will occupy an important space in its autopsy.

Building on the varieties of capitalism literature, *Reinvention* compiles a rich set of case studies that illustrate the sheer variety of national experiences. In Germany, the Kreditanstalt

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für Wiederaufbau (KfW) extended the practice of US development banks like the New Deal-era Reconstruction Finance Corporation (RFC) to play a vital role in every decade of post-war national economic life, with a particular focus on green technology firms in recent years. Similarly, the chapters on Italy's Cassa Depositi e Prestiti and France's Bpifrance show robust interventions in sectors from high-tech to autos that constitute contemporary forms of a *dirigisme* supposedly buried in the neoliberal era. These experiences stand out from those of Spain, Hungary, Poland, the Baltics, and Greece. As chapters on those countries show, weak to non-existent capacity and less buy-in to developmental mandates has led to less impressive outcomes than the EU's top economies.

The volume also makes a vital contribution to the transnationalization literature by highlighting the (sometimes determinant) role of EU institutions. In Europe's periphery, national developmental banks have been policy takers from the Luxembourg-headquartered European Investment Bank (EIB). Matters were different in Frankfurt and Paris, where the already existing national development banks exerted substantial influence over the shape of new EU rules. For example, in a chapter by Eulalia Rubio and Thiemann, we are treated to the following juicy morsel: that KfW and the other big NDBs made sure that their contributions to the EIB (even if recycled back into their home economies) would be exempted from state aid rules. And in an illustration of how some of the chapters shine over others in making more extensive use of original interview data, Volberding quotes an EU official as saying

We did want to encourage [the establishment of NDBs], but we wanted to encourage a business model that was focused on market failures that was also at arm's length from the government, so you don't have political decisions on specific loans. And we were dangling the carrot that once you did meet these criteria, any lending that these banks do will not count towards the Stability and Growth Pact's debt limits. (74)

This is perhaps the central practical contribution of the book: it shows how a European Union that would seem to be too shackled by austerity to be functional (Stiglitz, 2019) actually carried out deficit spending by other means, shuffling direct government expenditure onto the balance sheets of NDBs. However, as Stephany Griffith-Jones and Natalya Naqvi note in their chapter, there was a shift from grants and allocation in an earlier *dirigiste* era to loans in the neoliberal era (which Juncker in effect constitutionalized as part of the post-2015 strategy):

While the leverage mechanisms of EFSI [European Fund for Strategic Investment] are very attractive for policy makers due to EU budget limitations, these mechanisms also make it more difficult to provide policy steer, for example as part of an industrial policy, because the instruments that provide leverage also make the activity much more indirect. (p. 94)

The primary weakness of the book is its superficial engagement with political economy theory, which will reduce its visibility to many scholars who would benefit from the rich data it presents. For example, the editors state that resurgent yet quiet state interventionism in the neoliberal era represented by NDBs is the volume's animating puzzle. Yet work in recent years by historians, legal scholars, sociologists, and political scientists has shown how that reliance on state power is a defining feature of neoliberalism (e.g., Slobodian, 2018; Pistor, 2019; Prasad, 2006; Mettler, 2011; Newman and Posner, 2018; Kalyanpur and Newman, 2019). While several of the chapters touch on neoliberalism as a policy orientation more or less present in various countries, the lack of a theoretical through-line minimizes the political economy payoff. To be fair, the contributors perform a Herculean task in bringing together centuries of history on the rise, fall, consolidations, and break-ups of public agencies and banks. But with minimal use of theoretically motivated narratives, this can read like an

endless series of acronyms and balance sheets. (A list of acronyms in the front matter would have been a kindness to readers, especially for examples like the Polish Development Bank – Bank Gospodarstwa Krajowego [BGK] – which would only be well known to a select subgroup of regional or country specialists.)

This lightness on theory is ironic, as the book's editors cite their frustration early on (p. 4) with the lack of attention to politics as opposed to the economic effectiveness of national development banks. Moreover, they promise to integrate field theory “with insights from historical institutionalism [HI] and political economy accounts of the European integration process” (p. 14-15). Yet this is the first and last we hear of HI, and field theory shows up rarely, primarily (if not only) in chapters by the editors themselves. HI insights may be implicitly present in the path dependencies described in the case study chapters. But we are a long way from heeding Robert Keohane's (2017) call to use HI to come up with falsifiable hypotheses and tight comparisons between different modalities of change.

In any case, a light theoretical touch may be an asset in terms of attracting readers from policymaking circles. In the early 2020s, renewed popularity of the idea of industrial policy has far outstripped current capacity in many countries. In the US, proposals for new industrial policy institutions abound, including an Industrial Finance Corporation (modeled on the RFC), a Clean Energy and Sustainability Accelerator (contained in the Build Back Better Act), and a National Investment Authority. Yet, as several recent forums have noted, there is widespread disagreement about how to best sequence and staff these enterprises, and there is particular confusion about whether NDBs partnering with private finance is a capitulation to capital, a de facto nationalization of the private equity industry, or something in between (Kuttner, 2020; Mazzucato, 2021). In these debates, *Reinvention* can provide a useful guide. Policymakers need not start from scratch, and the decades if not centuries of European practice in this area can provide important do's and don'ts. Mertens, Thiemann, and Volberding have provided an essential foundation for understanding how states can use banking institutions to structure markets. The ever-growing literature in this space – including Thomas Marois' (2021) new book on making industrial policy popularly accountable – will contribute to the scaffolding.

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