Fostering economic convergence for the green transition

How can the challenges of climate change mitigation and socio-economic convergence in the EU be addressed together?

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1. The Green Transition is essential, but opportunities and challenges are distributed unequally across countries and regions.

2. The resulting inequality bears danger of socioeconomic divergence and failure of the green transition.

3. Challenges must be addressed by a mix of active industrial and energy policy – market-based policy alone will not suffice.

4. The right policy measures need to be country-specific.
In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its **economic, social and territorial cohesion**.

*EU Treaty*

Cohesion policy is so powerful, [...] because it delivers on a core **promise of our Union** – that all regions are equal, that European citizens, no matter where, can live safe and prosperous lives.

*Ursula von der Leyen 2022*
What about convergence in previous decades?

Hard to tell on the country level...
What about convergence in previous decades?

The green transition as a thread to catch-up dynamics?
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The green transition as a thread to catch-up dynamics?

- Unequal distribution of challenges and opportunities
- Inequalities as potential source for dangerous path dependencies

This threatens the future of the EU and a successful green transformation
How to achieve convergence and the green transformation?
Not all Member States, regions and cities start the transition from the same point or have the same capacity to respond. These challenges require a strong policy response at all levels.

EU Green Deal
Cohesion Fund allocation per Member State and per Capita (2014-2020)

Source: EPRS (n.d.) based on EC (n.d.) and Eurostat (n.d.) data:
RRF grants by Member State and per capita (current prices)

Source: EPRS based on EC and Eurostat data:
Additional yearly investments in the EU needed to achieve net-zero by 2050 (McKinsey 2020: Net Zero Europe)

€ 933bn
State aid under the "Temporary Crisis Framework"

Notes: State aid approved under the Temporary Crisis Framework and related Treaty measures.
Why markets alone cannot solve this and we need active industrial policy
60% Of the necessary investments for the EU to become carbon neutral by 2050 don’t have a business case. (McKinsey 2020)
Path dependencies

1. Pre-conditions for production
2. Relatedness of technological capabilities
How to fix this with Industrial Policy?
Carrots and Sticks: Making Industrial Policy successful through conditional support
Building future-fit Industries:

1. Ecologically sustainable
2. Economically viable
3. Related to existing capabilities

(Hafele et al., forthcoming)
The challenge of skill relatedness

Countries cannot simply move from one set of economic activities to another.

New activities must be related to the present ones.

Source: Landmann et al. (2022) on Ireland.
The challenge of skill relatedness

Relatedness networks are very country-specific

Transition strategies must be country-specific as well
1. The Green Transition is essential, but opportunities and challenges are distributed unequally across countries and regions.

2. The resulting inequality bears danger of socioeconomic divergence and failure of the green transition.

3. Challenges must be addressed by a mix of active industrial and energy policy – market-based policy alone will not suffice.

4. The right policy measures need to be country-specific.
1. What are country-specific key vulnerabilities and opportunities?
2. Which industries to support, which to phase out?
3. How does skill relatedness differ across countries and how does it translate into industrial policy?
4. How to get the political support to implement these policies?
Outlook: open research questions – selected works

Governing a green transition – Identifying future-fit replacement sectors for threatened industries in Germany and Hungary

The Green Transition and Polarization in Europe
A multi-level assessment with Germany and Poland as Case Studies

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