S34 Special session
"A new industrial and regional policy for European growth and integration"

The recovery of investments and of internal demand and the territorial integration of new productions

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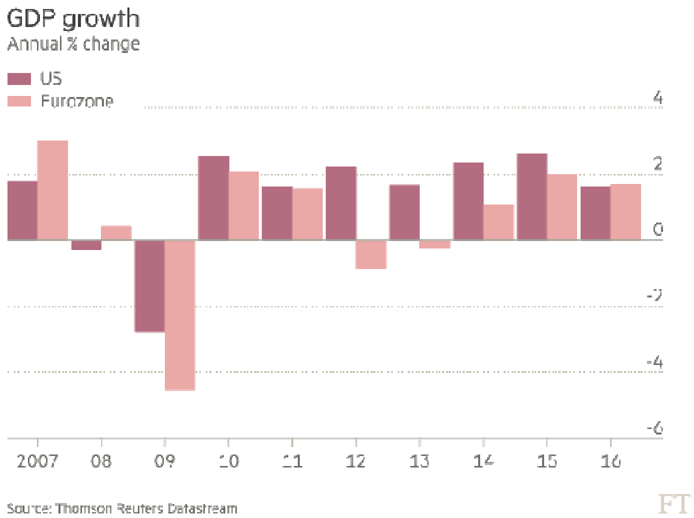
The problems of the reorientation of the economic policy guidelines in the European Union and of the fragmentation of the European Union are very important after the Brexit and in this period when an important share of electorate in many countries including the Netherlands, but also in France, Germany and in other countries in Eastern Europe and also in Italy is openly advocating an exit from the Euro area, from European Union or advocating an Europe with multiple speeds or with a flexible geometry.

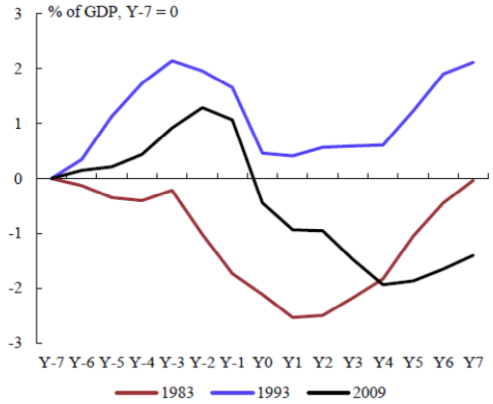


According to the European Economic Forecast – Winter 2017, the growth rate in all Euro Area is very slow and it will be only 1,6% in 2017 and even lower in France, Belgium (1,4%), Finland (1,2%) and in Italy (0,9%). The current account balance in 2017 will be 8,1% in Germany and 7,4% Netherland, indicating the slow growth of the internal demand and large export of capital and investments abroad. That is explained by the growth of investment, which is particularly low in Germany where is the slowest in the EU, together with Slovakia, Malta and Finland.

The European Commission indicates to the national States to adopt the policy strategy based on the "virtuous triangle" of boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. However, the European Commission, while it has finally recognised that investment is the number one priority, does not indicate neither what types of investments, nor where in the European territory to invest, nor the appropriate instruments to leads firms and institutions to increase investments. Thus, the aim of boosting investment is in fact secondary with respect to the other two policy priorities: "structural reforms" and "fiscal compact".

Moreover, it is surprising that the European Commission in her assessment of macroeconomic imbalances and in the Country-Specific Recommendations does not explicity mention the three welknown macroeconomic policy objectives of a not too low inflation rate, a full employment level and an higher GDP growth, since the failure to achieve these policy objectives is the cause of an increasing dissatisfaction by the European citizens and of increasing social and political tensions within and between individual countries.

Graph I.5: **Total investment, EA-12**



The economic recovery depends on the recovery of investment, consumption and domestic demand, while the so-called "structural reforms", which are horizontal and aim to reduce costs, and the aim to exports growth, in fact have led to reduce wages and employment, and have had a deflationary effect on the economy.

The keywords in a new industrial and regional policy aimed at growth are not international competitiveness, cost reduction and restructuring of firms with employment cut, but to promote innovation, investment and new productions primarily address to the internal market. The investments are a priority for growth at the national and local levels, as they increase both the demand and supply and have positive effects both from an economic point of view and from the social, cultural and political point of view. The business world should be given a greater certainty in the medium and long term perspective or a new growth strategy.

The two problems of European integration and economic growth are linked between them. The rediscovery of common values among the citizens of Europe can be the driving force for a long-term joint effort, which stimulates joint investments and economic growth in the individual countries. Therefore, recovery in the growth process, orientation toward the future and a common European cultural identity are closely linked to a new regional and industrial policy, aimed to promote investment and innovation in the network of hundreds of European cities and regions.

The goal of full employment requires the creation of new products and new businesses, which aim to meet the new needs of citizens in the territory. New material and immaterial investments are needed to raise the productivity and wages and the growth of the domestic demand for consumption. Investment must focus on urban centres, which represent the geographic, economic and cultural nodes of the European economy and can be a great laboratory for the development of new products, services and jobs.

The growth of both the aggregate demand and supply depends on the change of the internal structure of the economy or on the shift from less productive to more productive uses of resources. On the contrary, the traditional macroeconomic models miss the possibility to consider the impact of structural change and innovation on aggregate growth.

Greater innovation and investments increase both the aggregate supply and the demand.The schedules of the aggregate supply and demand may shift to the right in order to expand the GDP and employment until to reach the full employment level.

Innovation is not only the process innovation but especially the product innovation. Innovation is not so much the “industry 4.0”, aimed to reduce unskilled employment, but rather the new productions in new areas which can use qualified human resources. Entreprises must have the courage to diversify their production away from traditional productions and to start investing in new productions. Especially companies invest too little in "intellectual capital" or in human resources and in the planning and professional services.

There is the need of a change in the business model of companies, which have to be more oriented to the future, to invest more in intangible resources, be more oriented to the internal market and not only on exports and more willing to collaborate with external partners. Innovation is not the result of a mythical innovative entrepreneur, who needs to be freed from the external obstacles of bureaucracy and trade unions. Innovation is instead the result of a collective effort of all the actors who are part of the innovation system, it is based on the opening of companies to the collaboration and, if necessary, to the merger with other companies. Innovation can not be made by the individual enterprise alone, but within a regional and national system of innovation together with other companies, customers and suppliers in the production chain, together with the workers, to the universities and to the banks and the institutions.

The companies are not all equal because only 20% of companies are innovative and they should represent a model for the remaining 50% of the companies, which should innovate more. But above all it is necessary that the industrial policies will help the remaining 30% of companies which are in crisis and that close factories or disinvest or are sold to foreign companies, as these companies should be helped to make a "turnaround", which requires to invest in the re-conversion to new productions, the hiring of specialized technicians, a change in management and also M&A with the most dynamic companies in the same supply chain. This process of turnaround will allow the banks to reduce the Non Performing Loans and also return to give credit to the economy.

The city and the territory as an incubator of innovation

Private and public investments in the cities allow one hand to promote the European cultural heritage and on the other to boost European economic growth. In fact, European economic policies should boost investment and innovation not only because they create new qualified jobs and increase productivity and economic growth, but also because such investments are necessary to create the capacity or infrastructure and services, consistent with the " European social model" and they can respond to the growing needs of European citizens in culture, education, health, environmental sustainability, equality of opportunity, solidarity towards the weakest and social justice.

Therefore, the aim of the Discussion Group "Investments, Growth and Territory", is not only to sustain economic growth, but also to promote a type of development that meets the needs of the citizens of all European countries. Accordint to the proposal of the Discussion Group "Investments, Growth and Territory", the investment strategy should be articulated at the sector level and at the regional level and it is tightly coordinated with the traditional macroeconomic, monetary and fiscal policies and with the objectives of full employment, stable inflation and fiscal sustainability.

A new economy policy and a new industrial policy and regional policy must start from the expansion of the internal market by satisfying the needs of citizens, from the development of the domestic production capacity, from the tangible and intangible investments and from the creation of new skills and knowledge and the creation of skilled employment.

The problem is not to prevent imports and even replace imports, but to create the domestic demand and to expand the domestic production in order to meet the new demand, since these new products can later also be directed to export. It is not an import substitution strategy, but a strategy of creating new markets for new productions.

Only by creating demand for new products it will be possible to stimulate investment and therefore the creation of new jobs and the growth of the economy. If there is not the demand, the entrepreneurs do not invest and if there is no investment it not possible to increase the production capacity and jobs, and then it not possible the increase of the aggregate demand.

The continued growth of domestic demand targeted to meet the new needs of citizens, and especially within cities generates an increase of production and investment in new productions, of qualified employment, of wages and it reduces social disparities and thus it determines the development of the internal demand.

The large national investment projects have too long of achievement and have led only to not spend the available funds or to increase the national debt. Investments must be driven by demand often implicit and collective present in the city and the territory and be funded directly or indirectly from the future users and not only from the public sector. The great innovative projects that aggregate the widespread demand for new needs related to a better quality of life: housing, urban and regional mobility, culture and leisure, health and education, and energy and environment

Industrial and regional cohesion policies can increase the productivity of the economy by:

- promoting the reconversion from traditional low tech sectors to new high productivity productions
- increasing the demand and/or the supply of these productions and
- promoting the joint action of private and public actors.

Investments should be promoted through a "new industrial and regional policy", which stimulates the creation of new knowledge, the thrust in the future, the will to undertake by the enterprises and it promotes the development of innovation and knowledge networks between the various actors in the various national, regional and local innovation systems.

The new industrial and regional policy in Europe should be based on a bottom-up collaboration between local, national and EU institutions. Is necessary to strengthen the intermediate institutions, adopt modern forms of multi-level governance, ensuring greater decentralization of policy decisions and strengthen the planning capacities of the public institutions and their capabilities in providing new, better quality and more efficient public services.

In conclusion, the European economic recovery and thrust in the future of a stronger European integration must start from a "new industrial and regional policy" centred on a major European innovative investment program, which starts from the territory and focused on the network of the hundreds of European cities and regions of different sizes, where businesses operate and citizens live.

The proposal of the Discussion Group "Growth, Investments and Territory" is illustrated in the three e-books published in the website: http://economia.uniroma2.it/dmd/crescita-investimenti-e-territorio . The final document indicates that investments can be articulated in the following six strategic areas: 1) housing, 2) mobility, 3) culture and leisure time, 4) health and education, 5) energy and environment, which can pull 6) the development of new production sectors in manufacturing and services and can create new jobs for highly qualified workers.

This proposal is the result of four large workshops (each with more than 30 participants) organized in the period 2014 -2016 and a long series of meetings in various Italian universities and other institutions, with the participation of experts in various research fields and also by decision makers in Government, companies and other organizations. That has allowed a process of gradual understanding of the difficult task of translating the indications of economic theories into relevant policy indications.

References

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