

Investment, Employment and Aggregate Demand: A New European Industrial and Regional Strategy

*Gioacchino Garofoli**

Abstract

The recent economic crisis asks for expansive economic policies because already the crisis of 2007-2008 showed the lack of investments and low employment rates as the crucial week points of the European economy.

Recently even European Commission recognized the urgency of a large investment plan in Europe to face the Covid's crisis with the launch of the NGEU to reach green and sustainable goals. This underlines the role of development industrial policies and the coordination of the dynamic relationships between cities and regions with Europe giving a big push to territorial development projects.

Industrial and development planning should be realized through a multilevel and experimental governance.

Keywords: European Economic Restructuring; Sustainable Economy; Industrial Development; Territorial Development; Global Markets

1. Economic Crisis and a New European Industrial Strategy

A New European Industrial Strategy is necessary due to the strong economic problems existing in Europe after the Covid-19 crisis. The Covid crisis has increased the economic and social difficulties already due to the European austerity economic policies in the last decades.

Previous works showed how the objective of European competitiveness has been a false problem because European effective exports (in extra-European countries) cover around 10% of total GDP. This means the crucial market for European countries is the European internal one and this explains again that the crucial problem is the lack of the aggregate internal demand (Garofoli, 2017; Cappellin et al., 2018; Cappellin, 2020).

* Full Professor of Economic Policy, Insubria University (gioacchino.garofoli@uninsubria.it)

Edited by: *Niccolò Cusano University*

ISSN: 1593-0319

Garofoli, G. (2021). Investment, Employment and Aggregate Demand: A New European Industrial and Regional Strategy. *Symphonya. Emerging Issues in Management* (symphonya.unicusano.it), (1), 40-49.

<https://dx.doi.org/10.4468/2021.1.04garofoli>



Only an economic policy oriented to investment could solve the lack of jobs and the missing internal demand (Garofoli & Holland, 2017; Simonazzi et al. 2013; Ginzburg & Simonazzi, 2017; The Pavia Declaration, 2015).

The competitive model was just the adaptation of the European economy to the international redistribution of production and employment generated by the globalization process through the organization of the Global Value Chains (GVCs). The negative effects of the international production and globalization process on the lack of capability (both at national and European level) to control the supply of basic medical devices and pharmaceutical products were clearly discovered in the first months of the Covid's diffusion in Europe. Analogous problems arose in other industrial production showing the strategic weaknesses of this process at least for a lot of European countries.

The negative effects of the lack of precautionary measures against humanitarian and natural disasters are quite relevant and this underlines the crucial role of a long-term approach of investment on health, territory care and food security. This explains the necessity of a transformation of the European economic structure in the direction of the satisfaction of basic needs of European citizens through economic policies, which support both the demand, and the supply of these strategic goods and services. This will create the internal coherence of the income production cycle (from investment to increase in employment and income to rise of consumers' demand) in Europe.

We need, then, developmental industrial policies oriented to the satisfaction of European citizen needs (Pitelis, 2015; Wade, 2012; The Pavia Declaration, 2015; Cappellin et al., 2018). The depressed economic situation in Europe, due to the low employment rate and to the reduction of private consumption, underlines the substantial amount of unmet needs of European citizens and allows a path of investment projects that would solve both the production and employment problems (Cappellin et al., 2018). This approach was already called in several papers and documents but not accepted by the strategies of European economic policies until the beginning of the Covid's crisis.

Recently the European Commission launched the idea of a Green New Deal (EC, 2019) and the decision on the EU Recovery Program *Next Generation EU* (EC, 2020), proposed by the European Commission on 26 May 2020 and approved by the European Council on 21 July 2020 (EC, 2020). These have been crucial momentum for European economic policy, which finally moved towards realistic and proper goals, introducing the objective of a structural change in comparison with the previous strategic behavior. There is still to work deeply to realize a coherent European strategy to face the great economic and social problems arisen with the Covid-19 crisis. This means it is necessary to underline the needs for due care of European citizens and their territories and to launch coherent strategies and policies towards these goals. The recovery of the Covid's crisis gives opportunities for a hope on the future with a radical change in the European perspective. The Recovery Program should be a starting point towards a European society and economy becoming more and more project oriented in the direction of a viable future (green, participatory, based on diffused awareness and social responsibility).

The Recovery Program should introduce great investments in health and green sectors and it will be the opportunity to re-launch the ideas and proposals of Delors'

White Paper of December 1993, updated with interventions on research and education and social services (Garofoli & Holland, 2017; Holland, 2016).

The new European Industrial Strategy is then in line with some positions in the social and economic debate, especially with endogenous development theory (and place-based development), sustainable development and foundational economy approach¹. This perspective needs a restructuring of the relationships between central state (more and more oriented in setting a broad vision and a planning capability) and local and regional governments. Local and regional government need to be reinvented, empowered and re-skilled as appropriate to develop textured and context-specific understandings of the foundational economy (Bentham et al., 2013, p. 19).

In any case, local communities cannot wait for the changing European policies. Territorial and urban investment are suddenly necessary to face (and hopefully solve) territorial and social problems and to change the regulation of the economic system, especially in the direction of a sustainable development process. This means a great effort, at European and national level, involving public and private actors, local communities and civic society. This will make necessary to organize a multilevel governance, involving all the institutional *filière*. This should even lead to a co-projecting process. A great role of coordination could be played by the National Agencies of Territorial Cohesion, which should be pushed to accompany, with technical and administrative assistance, territories and local communities.

A new dynamic relationship between cities, regions and Europe is, then, necessary and this should improve both the capability to use better the European Development Funds. This will be the outcome of the creation of an effective capacity of regional coordination of territories' initiatives and the capability to spend and to reach the European official goals. The changes in public administration's mechanisms and in the organization of effective governance of territorial development initiatives should be the crucial issues of the Recovery Program (or NGEU) in Italy and Europe.

At the conclusion of the paper, some policy proposals will be presented, especially in the direction of private-public partnerships and in the capability to mobilize territorial savings through territorial bonds.

2. Developmental Industrial Policies

The social costs of the Covid's recession has already been quite dramatic. The rise of unemployment, the reduction of working hours, the sharp reduction in production, the increase in poverty (till roughly 20% of European population), the reduction of public revenue (especially for local and regional authorities) ask for rapid and effective economic policies at European and national level and a coherent European and inter-institutional governance.

The economic effects of the pandemia have been quite different by sectors, countries and regions. The more relevant discrepancies have been registered in regions more oriented to construction, tourism and retail due to the differences in the economic structure and in the lockdown restrictions (Cappellin, 2020).

We need strong and effective developmental industrial policies at European level and Europe should build a strict coherence between the promotion of demand for new goods and services (to cover citizens' needs in Europe) and the capability to generate new production supply of those goods and services, which will create

developmental opportunities for investments and new jobs in Europe. The Covid crisis showed the weakness of the health and medical *filière* not only at national level but also even at the European one. The high risk we met in the crucial period of the diffusion of the pandemia shows the relevance of an European Industrial Strategy looking at the same time both at the demand side (even at the potential and precautionary demand) and at the supply of coherent and necessary goods and services. This needs a strategic direction of economic planning, involving private firms in strategic sectors with an indicative planning, and decision capability at European (and national) level, following the best European experiences in the post-war decades.

All this means then we need not only a quick and strong recovery's expenditure in Europe but even quite differentiated interventions by countries and regions with all the consequences in terms of public investments at national and regional level. This asks a complex governance of the different institutions along the public *filière*, which implies in any case a strong and rapid injection of European and national resources to local and regional authorities.

This process could finally create the conditions for an industrial policy that builds its own demand and, at the same time, directs effective supply of European production. In fact, complementary public and private investments could find a great economic feasibility through the economic process sequence and the increasing interaction between the different investments, following the Hirschman's ideas on investment linkages and prospects on the use of existing resources but "unused or badly used" (Hirschman, 1958; Hirschman, 1971).

A planning procedure should be created surely for strategic sectors and activities, which need European technology and production to maintain a social and political control on the future, i.e. on the long run goals (health and medical *filière*, green industries, "circular economy", public transport, territory care and new technologies applied to strategic European sectors).

European public investments will act as a decisive driving force for the development of new technologies, innovation and new jobs because they will favour the feasibility of private investments in the selected sectors and activities areas (see, for instance, aerospace, renewable energies, telecommunications, telemedicine, ...) with European scope and aspirations. All this will produce the interaction between capability to answer to specific and crucial citizens' needs and to guarantee the supply of those goods and services at European level, creating at the same time, through new investments and new jobs (and the multiplier effects on total European income), the conditions for the increase of the European aggregate demand.

Looking at the role of different European institutions, the European Investment Bank could be a great and crucial actor in this perspective and its support will guarantee to avail great opportunities of high economic and social performances, including feasibility and profitability for private investments. The EIB's financing of proper and crucial investments, in fact, will be additive to the NGEU's support without any effect on national public debts (Galbraith et al., 2014; The Pavia Declaration, 2015).

An industrial policy with increasing interactions between public and private activities will guarantee to face all the existing problems in the connection of different worlds, due to the difficult relationships between education/training/jobs and in the links between research and industry in several regions and countries in

Europe. This strategic policy will involve a lot of private investments in launching innovative and new products, especially in strategic sectors², following the best practices existing in Europe, especially in Germany (Max Planck Research Institutes and Foundations like Fraunhofer and Steinbeis are directly involved as strategic territorial actors) and in France (with the experiences of the *pôles de compétitivité*).

A great driving force pushing all the private and public organizations to deal with continuous training, recruiting new workers with new knowledge and competences, will create a general awareness about challenges, opportunities and capabilities to construct a vision of the future. This process will produce new competences and skills for new sectors and production *filière*, creating the social conditions for the innovation. The consequence will be not only an increase on technology advances but even in human knowledge and competences through an increasing attention to good jobs and quality of work conditions.

3. New Dynamic Relationships between Cities, Regions and Europe

Another point of attack to asking for a new European strategy for development and industrial policies has focused on the attention on the relationships between the various levels of government. The city-regions-Europe interaction should be the basis of an effective vertical cooperation and solidarity, which is the condition for the necessary strengthening of the capability to launch and manage investment projects at regional and territorial level, which are, at the present, quite weak at least in the best part of Italian regions.

We need to create an effective coherence of choices along the City-Regions-Europe institutional chain to use in a successful way the regional and European co-financing programs, to avoid any risk to escape from political and social responsibility. The Recovery Program (or Next Generation EU) is crucial for the fulfillment of the goals in strategic sectors like health, education, and research, in green sectors and those respecting sustainable development, and for guarantying to deal with crucial issues for local communities and territories.

There are two lines for the organization of regional and territorial investment projects:

a) “bottom-up” investment projects capability and managing with an effective regional decision-making autonomy and adequate capability to negotiate with the higher levels of the institutional chain. This means regions need to take the crucial decisions on projects investments and their priority using the EU Structural Funds. The regions should take the direct political responsibility, at least on the priority projects, avoiding using all the amount of the EU financing through calls and tenders, which cannot guarantee the fulfillment of the goals and even the full expenditure of the specific European tools and measures. There are several examples of the opportunity of this effective and efficient vertical cooperation; see, for instance, the recovery of abandoned and dismantled industrial areas (industrial “friches”) even to allow the “zero land consumption” of the agricultural territory – and urban renewal and redevelopment (even in peripheries of metropolitan areas) and the historical centers recovering.

National and European Institutions should accompany territorial projects (since their design) with technical assistance but even with administrative and legal consultancy. This means it is necessary to change dramatically the logic of institutional interaction moving from a formal point of view (tender, selection, distribution of resources, control) towards a role of goal-oriented and co-projecting organizations. Thanks to their higher professional and technical competences, national bodies and agencies could help local and regional communities to solve their problems and respecting the general goals decided at European and national level³;

b) the private & public partnership (PPP) both for urban renewal and historical centers recovering and restoration and for the prevention of seismic risks, fires and floods, in addition to the observance of European and national energy saving regulations (both for public and private buildings), also to allow the re-launch of the building sector.

The costs of the urban and housing recovering support on public financing and the lower short-term public revenues - see public incentive through tax deductions – will be dynamically covered through the effects of the income multiplier and with the consequent greater public revenues due both to direct and indirect taxes⁴.

It is necessary to introduce a different approach, even through experimental governance. We need to diffuse (especially in public institutions) a coherent methodology and capability to deal with economic opportunities and planning based on expected results (and not based on a petty static accounting based on current values). Economic phenomena represent the outcome of economic processes (it is not a question of static allocation of resources). In the dynamic process, the investments and the creation of new firms and jobs are crucial. In the evaluation of the public expenditure it is, then, necessary to understand the dynamic outcomes, which should be estimated in the medium-long, term and not in short term.

4. Multilevel Governance for Industrial and Development Planning

There are some problems in many public and institutional documents written on economic policies: planning is much more than a distribution of existing resources between countries and regions or different sectors.

Planning is the capability of the State and of the negotiation process between public and private actors to fulfill the decided goals. This means capability to deal with investment projects starting from the engineering until the execution and control. Indicative planning used already, in post war decades, in some experiences of planning agreements and negotiating planning for industrial development in European countries (like France and Germany, but even in Italy especially during the 1960s), is crucial, for instance, to create the conditions for complementary investments between public and private decision makers and to stimulate PPP for strategic initiatives.

Innovative manufacturing production will be organized through the use of new skills and competencies linked with production process. The availability of these skills and resources will attract firms, which are looking for innovative capacities and appropriate research facilities, like hubs of knowledge creation, consisting in dense networks of universities, research centres and education & training institutions

(Oqubay & Lin, 2020). Regional governments have an important role to play in attracting and developing skills and technical competencies, ensuring a good living environment and institutional density (Bianchi & Labory, 2020).

A multilevel governance should comprise complementary actions at regional and higher levels (national and European): regions can adopt industrial policies to favour particular development paths; national and supranational levels have a role especially in levelling the playing field and mitigating the tendencies for monopolization (against the market power's abuse) (Bianchi & Labory, 2020).

On this respect, it is possible to introduce the concept of experimental governance, which represents forms of co-governance. With experimental governance, the officers of the state and the members of civic society work in concert (overcoming the traditional division of labour between experts and government officials), re-designing policy and re-creating trust in the public realm. Local actors have to learn from what is worked and is not elsewhere, and from pertinent experience in other domains (Morgan & Sabel, 2020). Experimental governance is based on effective experiences both at horizontal level (through the involvement of different stakeholders for territorial development projects) and at vertical level (through the involvement and cooperation of different levels of public administration).

Experimental governance is favoured by the opportunities to launch pilot projects on green and sustainable technologies in some regions (cf. the de-carbonization strategies in some coal regions like Saxony in Germany and the strategies for the reduction of the environment impact of tourism in the Balearic Islands), by singling out of existing best practices in some territories and regions (cf. WEGo alliance and the Foundational Economy Challenge Fund in Wales, the participatory experience launched by the Economic and Social Committee in Balearic Islands, the civic University model for the third mission), and finally by creating European networks focused on diffusion of the culture of development projects.

The capability to organize the basic conditions for the creation of a bridge between policy makers and citizens to favour their awareness and their participation to the development projects should be a great commitment for a part of social scholars who are looking for the reduction of this traditional gap.

5. Some Conclusive Remarks: The Culture of Territorial Investment Projects

We have underlined in these pages the relevance of a new European Industrial Strategy, which should be based on developmental industrial policies. Moreover, we combined the needs of a new European development framework with the dynamic relationships between cities, regions and Europe to guarantee not only regional and territorial autonomy but also even an effective use of the European resources now available with the NGEU. Industrial and development planning should be realized through a multilevel governance. The cultural diffusion of the experimental governance, at the end, arises the opportunities to launch territorial investment projects.

This last point stresses the role of the awareness towards restructuring capabilities and the involvement of the communities' actors and their participation both to guarantee the use of existing resources and the capability to transform potential

resources into a development process and the effective capability to fulfill social goals through satisfactory outcomes.

The last argument is linked with the capability of launching and strengthening territorial development projects with public-private partnership (horizontal cooperation and solidarity) through the mobilization of public and private actors and resources.

The attention should be paid not only on building capabilities to deal with investment projects and on the accompanying role of regional, national and European institutions but even with the capability to mobilize economic and social actors and civic society.

In this perspective, a sharp attention should be devoted to the opportunities to launch “territorial bonds”. The issue of territorial bonds plays a special role because it could let possible not only to mobilize financial assets and resources but even because they could recreate a direct relationship between savings and investments in territories and regions.

The territorial bonds, in other terms, will complete the process of mobilizing local actors and resources. Territorial bonds can be used with two different strategic lines: the first one for the finance of public investments in infrastructures and for the production of public goods (“common goods”); the second one for financing private investments in the different territories. This will increase both the identity of local communities and the social responsibility of firms towards citizens and local community and not only towards the usual other stakeholders. This will create a territorial dimension in the vision of the future and will clarify the intervention’s fields for citizens, firms and local State. Territorial cohesion is a starting point for the hope and for the change, defending values and wellbeing of citizens.

This approach will favour the diffusion of the methodology for a strategic planning logic. This approach, therefore, will increase the attention on the capability to deal with the challenges and opportunities for territorial development; even starting from easy themes and issues like the strengthening of school-labour relationships and reinforcing the attention and the full introduction of the principles of continuous training and learning along the life. The process of social and inter-generations interaction is at the basis for the orientation to the vision of the future and permit to identify and assess available resources in the territories. These are the starting points for the citizens’ participation, paying more and more attention to the territorial debate among different actors on the main choices, bringing to shared visions and decisions for community’s transformation.

Then it should be possible to identify common objectives for the community and to be ready for launching territorial development projects.

Bibliography

Bailey D., Bellandi M., Caloffi A., De Propriis L. (2010). Place-Renewing Leadership: Trajectories Change for Mature Manufacturing Regions in Europe. *Policy Studies*, 31:4, 457-474.

<http://dx.doi.org/10.1080/01442871003723408>

Barca F. (2009). *An Agenda for a Reformed Cohesion Policy. A Place-Based Approach to Meeting European Union Challenges and Expectations*, Independent Report to European Commission, Brussels.

- Bentham, J., Bowman, A., de la Cuesta, M., Engelen, E., Ertürk, I., Folkman, P., Froud, J., Johal, S., Law, J., Leaver, A., Moran, M., & Williams, K. (2013). *Manifesto for the Foundational Economy*. CRESC Working paper 131. The University of Manchester and The Open University.
- Bianchi, P., & Labory, S. (2020). Industrial Policy After the Covid Crisis: Mobilising All Levels of Government for Smart Complementarity. *Symphonya. Emerging Issues in Management* (symphonya.unicusano.it), (2), 73-79.
<http://dx.doi.org/10.4468/2020.2.08bianchi.labory>
- Cappellin, R. et al. (eds.) (2018). *The Response to the Needs of the Citizens and the Turnaround in European Policies: A Common Cultural and Political Platform for a Radical Change in European Economic Policies*. Discussion Group: “Growth, Investment and Territory”, e-book, December.
- Cappellin, R. (2020). The New European Industrial Strategy and the Company’s Organization Models. *Symphonya. Emerging Issues in Management* (symphonya.unicusano.it), (2), 7-24.
<http://dx.doi.org/10.4468/2020.2.02cappellin>
- European Commission (2019). The European Green Deal, COM (2019) 640, Brussels.
- European Commission (2020). The EU Budget Powering the Recovery Plan for Europe, COM (2020) 442, Brussels.
- Fabbro, S., Paviotti, E., Tranquilli, D. (2019). *Una Grande Spinta*, Cantiere Friuli – Forum, Udine.
- Foundational (The) Economy Collective (2018). *Foundational Economy*, Manchester University Press: Manchester.
- Galbraith, J.K., Holland S., Varoufakis Y. (2014). *Modeste Proposition pour Résoudre la Crise de la Zone Euro*. Paris: Les Petits Matins.
- Garofoli G. (ed.) (1992). *Endogenous Development in Southern Europe*. Avebury: Aldershot.
- Garofoli G. (2017). Virtuous and Vicious Circles: Lessons for Current European Policies from Italian Post-War Development. *European Journal of Comparative Economics*, 14(1), 39-58.
- Garofoli, G. & Holland, S. (2017). Alternative Economic Policies in Europe: An Introduction. *European Journal of Comparative Economics*, 14(1), 3-12.
- Ginzburg, A., & Simonazzi, A. M. (2017). Out of the Crisis. A Radical Change of Strategy for the Eurozone. *European Journal of Comparative Economics*, 14(1), 13-37.
- Hirschman, A. (1958). *The Strategy of Economic Development*. New Haven: Yale University Press.
- Hirschman, A. (1971). *A Bias for Hope: Essays on Development and Latin America*. New Haven: Yale University Press.
- Holland, S. (2016). *Beyond Austerity; Democratic Alternatives for Europe*. Nottingham: Spokesman Press.
- Meadows, D. L., Meadows, D. H., Randers, J., & Behrens III, W.W. (1972). *The Limits to Growth. A Report for the Club of Rome*, Universe Books, New York.
- Morgan, K., & Sabel, C. (2020). *The Experimentalist Polity*. Paper Presented to the Webinar “A New European Industrial Strategy and the European Recovery Program after the Covid-19 Crisis”, July 8.
- Oqubay, A., & Lin, J. Y. (eds.) (2020). *Industrial Hubs and Economic Development*. Oxford: Oxford University Press.
- Pavia (The) Declaration (2015). *A New Deal for a Social and Democratic Europe*. Document signed after the Pavia Conference on Alternative Economic Policies in Europe, Pavia, April 24-25, www.aenl.org.
- Pitelis, C. N. (2015). *DIP-ly Speaking. Debunking Ten Myths, and a Business Strategy-Informed Developmental Industrial Policy*, in Bailey, D., Cowling, K., & Tomlinson, P. (eds.), *Perspectives on Industrial Policy for a Modern Britain*, Oxford, Oxford University Press.
- Scott, A. J. & Garofoli, G. (eds.) (2007). *Development on the Ground: Clusters, Networks and Regions in Emerging Economies*. Routledge: London and New York.
- Simonazzi, A., Ginzburg, A., & Nocella, G. (2013). Economic Relations between Germany and Southern Europe. *Cambridge Journal of Economics*, 37(3), 653-675.
- United Nations (2015). *Transforming our World: The 2030 Agenda for Sustainable Development*, A/RES/70/1, New York.

Vazquez Barquero, A. (2002). *Endogenous Development: Networking, Innovation, Institutions and Cities*. London & New York: Routledge.

Wade, R. (2012). Return of Industrial Policy? *International Review of Applied Economics*, 26(2), 223-239.
<https://doi.org/10.1080/02692171.2011.640312>

Notes

¹ Few quotations are sufficient for the oldest theoretical propositions on these issues (see Garofoli, 1992; Scott & Garofoli, 2007; Vazquez Barquero, 2002; Barca, 2009; Bailey et al., 2010; Meadows et al., 1972; United Nations, 2015). Foundational economy is based on “everyday economy” and on basic goods and services, which include utilities, some traditional private corporate activities, food processing, housing, health, education, welfare and social care, other public services. All these activities cover roughly the 40% of the workforce and at least 30% of the household expenditure. These activities exist because people exist; they are socially and spatially founded. An economy oriented then to “left behind people” (which asks for great social innovation) instead than to advanced sectors (Bentham et al., 2013; The Foundational Economy Collective, 2018).

² Especially in alternative and renewable energy sources and green sectors (like vegetable plastic production and plastic recuperation).

³ Usually in France the role of national bodies and agencies (see National Agency for Territorial Cohesion and Banque des territoires) is quite relevant, helping the local and regional investment projects.

⁴ See the proposal launched in 2017 for the region Friuli-Venezia Giulia by a civic group with Udine University and experts (Fabbro et al., 2019; Garofoli, 2019).