



Strategic responses to economic crisis: which role for regional policies?

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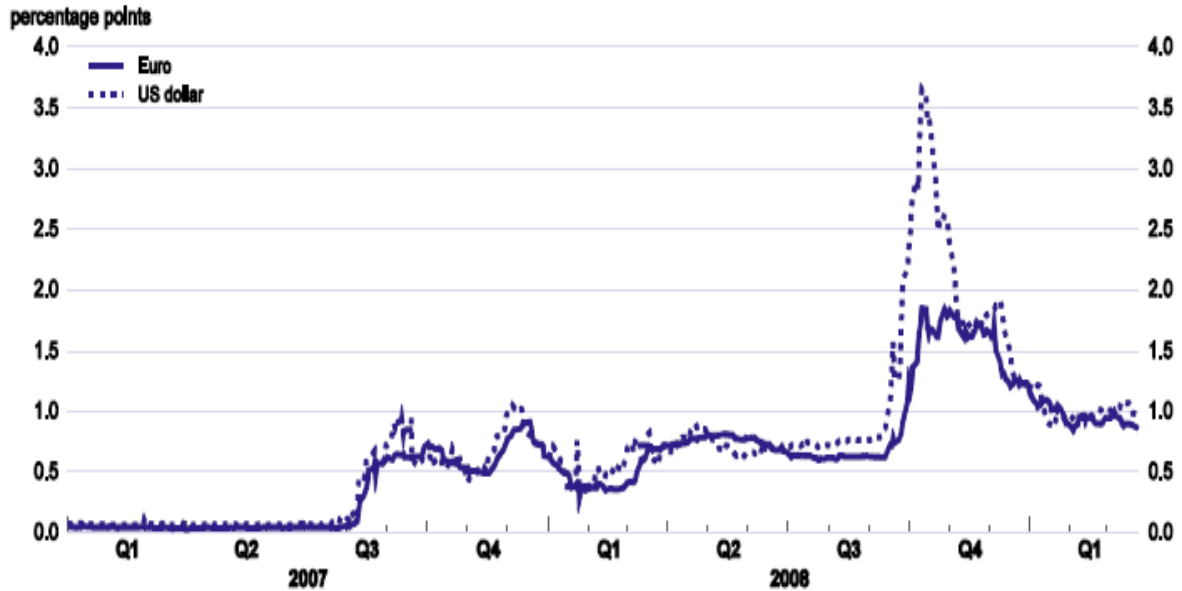
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OECD The crisis is severe, but there are signs that it is easing

Economic free fall has been avoided and financial markets have stabilised – more liquidity, more confidence

Figure 1.21. Money market spreads have eased



Note: Spread between three-month EURIBOR and EONIA swap index for euro area; spread between three-month LIBOR and overnight indexed swap for the United States.

Source: Datastream; and Bloomberg.



The real economy is suffering, but there are now some encouraging signs

“”Copper has a Ph.D. in economics...”

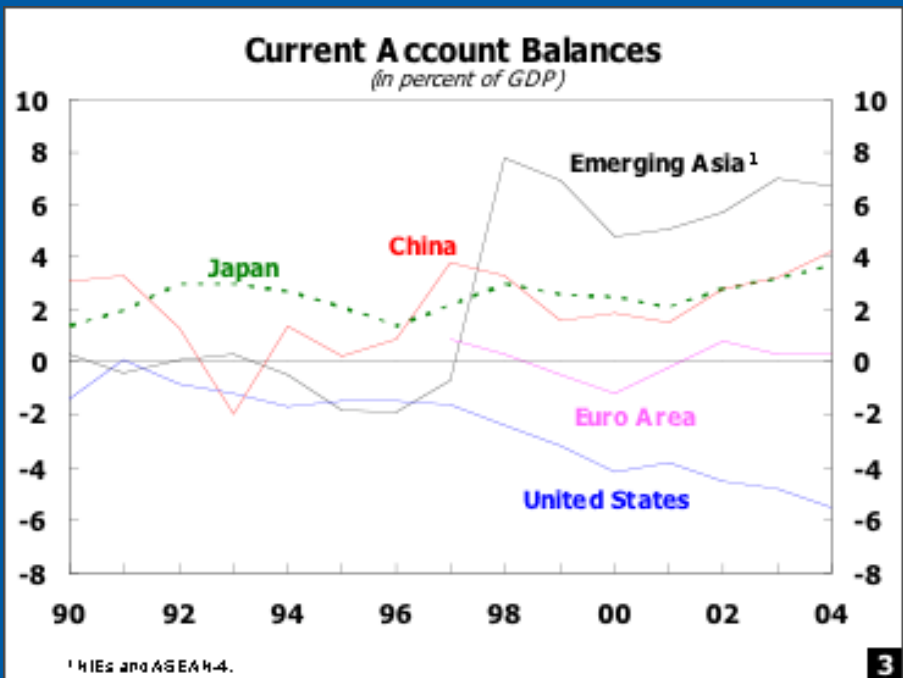
Falls in output and employment are becoming smaller and some key commodity prices are rising...



OFXT data

Behind the crisis lie long-term imbalances

The crisis was made worse by structural instabilities that need to be addressed

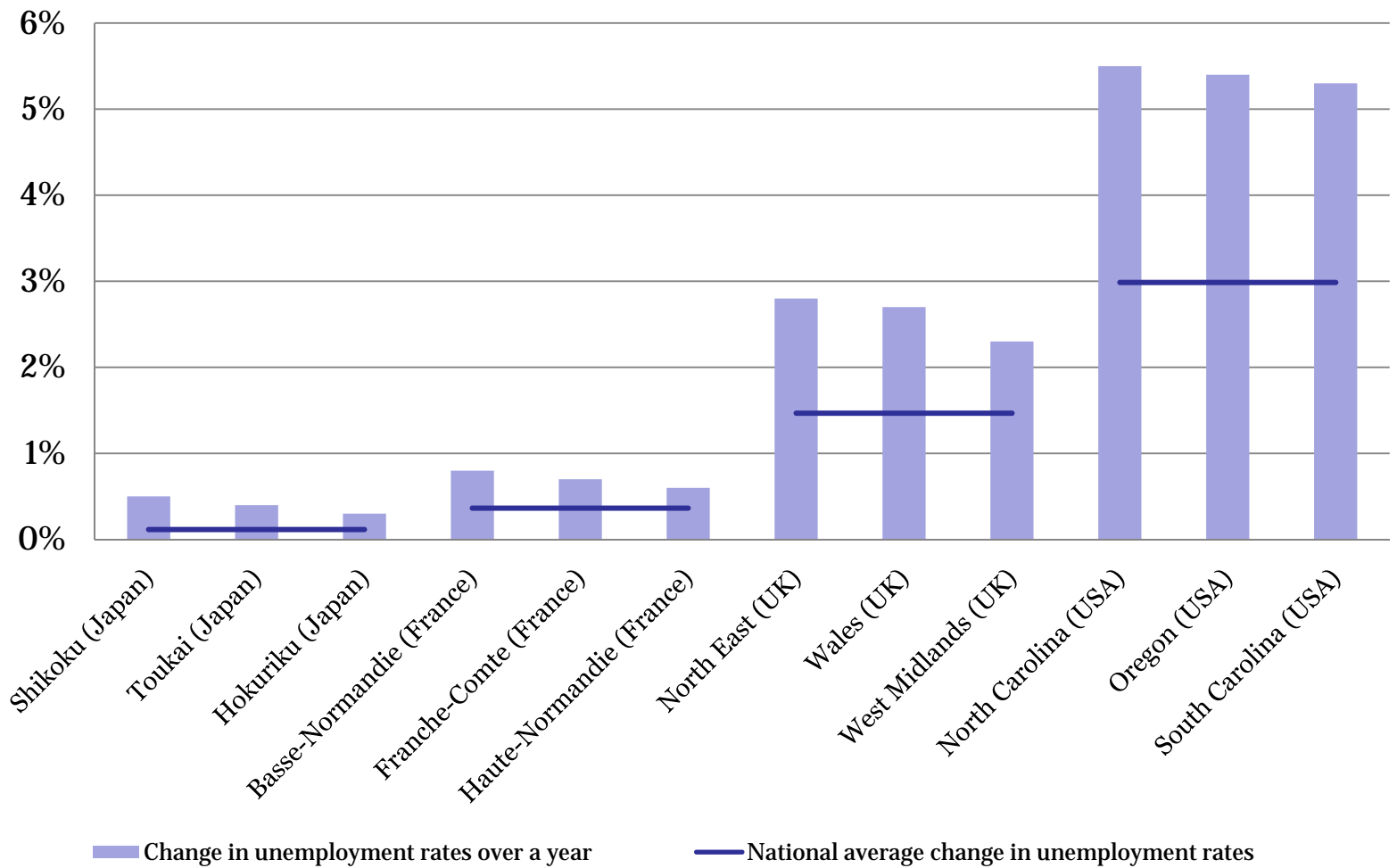


E.g., US trade balance with China...

	Exports	Imports	Balance
2001	19,182.3	102,278.4	-83,096.1
2005	41,925.3	243,470.1	-201,544.8
2009	71,457.1	337,789.8	-266,332.7



OECD Responses need to recognise that regions are being affected in different ways



After stabilising the financial sector, it is time to address long-term growth

- The focus of public policy has been on the banking sector and consumption; it will move to generating long-term growth through strategic investment
- Policy needs to be oriented towards a double dividend
 - attenuating the impact of the recession, and
 - pursuing economic reforms that enhance productivity to support growth beyond the short-term.
- And it needs to involve the regions:
 - sub-national governments account for around 70% of capital investment in OECD countries

Long-term growth strategies depend on regional action

Recovery plans can use well-developed mechanisms for co-ordination between the centre and the sub-national level. Examples include:

Germany, where the EUR 18bn recovery package is tied to the federal-Länder “joint task” co-ordination arrangement

Korea, where about 90% of the spending will be sent to provincial and local governments for infrastructure and construction projects

Sweden: where VINNOVA is mobilising resources for innovation projects *specially tailored for each region*, on the basis of regional heterogeneity

Seizing opportunities: the example of innovation

- **Innovation policies need to be broad-based:**
 - accelerating planned investments in knowledge infrastructure + increasing investments in R&D + developing regional and local innovation capacity + improving networking among actors;
- The economic downturn brings about a process of creative destruction. To avoid that destruction prevails over the creation of new innovative activities, measures should target both incumbents and *new potential innovators*;
- Government intervention can take the form of *public-private partnerships at different governance levels*. Public-private partnerships increase the resilience of R&D projects as the balance of their financing can be varied over the business cycle;

Seizing opportunities: the example of innovation (ctd.)

- Support to private investment in R&D should be delivered through *counter-cyclical rather than pro-cyclical measures* (e.g. grants as opposed to tax incentives);
- Open and competitive *public procurement* should be considered more systematically as a demand side instrument to support R&D and lead markets for innovative goods and services