

Speech for Commissioner Hübner
OECD Ministerial meeting in Paris
"Investing for growth: building innovative regions
31 march 2009

Dear Ministers, Dear Ladies and Gentlemen,

I am very pleased to be here at this important ministerial meeting. It comes at a crucial moment, when we not only need to overcome the current crisis but also set the course for remaining competitive.

We live in turbulent times where the foundations of the world's economies are being seriously tested; where the weakest economies have been hit worst; where our fellow citizens are struggling to make ends meet; where policy makers like us are asked to come up with innovative responses and to design new policies.

The financial and economic crisis is showing how fragile economic growth can be, but also how effective and transparent institutions are indispensable to set the appropriate conditions for growth to unfold. Indeed, this crisis is testing the capacity of public policies in re-establishing the confidence which is necessary to re-launch the economy and supporting essential investments to kick-start the recovery.

Everybody agrees that public intervention is needed more than ever since Paul Krugman called on governments to "get fiscal" in October last year. Billions of public monies have been mobilised in the past months to re-capitalise ailing financial institutions, to help industries to confront rapidly falling orders, to support consumers spending power.

Yet, this crisis is also demonstrating that it is not enough to mobilise vast amount of resources; it is necessary to have very clear ideas on how to invest those public resources.

Old habits are hard to die. I see temptations in many quarters to channel public monies to uncompetitive sectors and to give "a bit to everybody". I see risks of protectionism coming back and demands for special treatments being revived. I see (and I understand) the urgency to focus on the "short-term". But what I still do not see is a vision of what should be done to ensure that our economies and societies would be stronger once the crisis is over.

I think there is wide agreement around the table that protectionism is no answer to the current crisis. The European Union, its leaders and institutions have already stressed this and underlined the importance to act together in a coordinated manner, within the framework of the Single Market and the Economic and Monetary Union.

I am convinced that it is necessary to intervene in financial markets rapidly by agreeing on mechanisms to improve the regulation and supervision of financial institutions, and to deal with impaired banking assets. But I am also convinced that interventions in the real economy need to be informed by a clear vision about the period after crisis. As an end result, the full functioning of our market economies should be restored to allow governments to withdraw from their emergency interventions. We do need an exit strategy.

In many respects, this crisis provides countries with the opportunity to re-consider their development trajectories and devise new policies and instruments to accompany that change.

There are substantial opportunities to achieve multiple benefits by addressing the current global economic crisis, energy security and climate change in a coordinated manner. And we, the OECD countries should take the lead here. There are opportunities to make industries greener and develop green collar jobs. There are opportunities to improve the energy efficiency of industrial systems, to increase the share of electricity produced by renewable sources, and to make mobility more sustainable.

We need to ask how decisions taken today will contribute to make tomorrow's economies more competitive and sustainable, our societies more inclusive, our cities more liveable, and our rural areas more dynamic.

We need to promote the most-needed re-structuring of our economies. We need to convince all economic and social partners that the future is not in continuing to do the things we know in the same way, but in inventing new ideas and devising new ways to do old things. We need to maintain the effort in support of innovation, even more so at times such as these when urgency pushes for short-term returns. We need to say clearly that leaders at the beginning of the crisis will not necessarily be the same at the exit.

Then, the key question we need to answer is how public resources can be targeted on the most effective investments. How can we devise interventions which allow striking the right balance between sheltering existing jobs while creating new ones? How can we help firms to face the crisis and to prepare to go the distance? What is the policy mix which combines the most-needed, short-term effects with the need to put our economies on a sustainable development path?

Ladies and Gentlemen:

I think that Ministers responsible for regional policy can provide many of the answers to those difficult questions. I am convinced that we need to grasp the opportunity of the current economic crisis to demonstrate that place-based policies are in fact a superior way to address development problems. I believe that this is a universal result. That is why we need to confidently affirm that a place-based approach could play a crucial role in making the world's economies emerge stronger from the crisis.

With a view to launch the discussion let me point at three issues of particular relevance for OECD countries.

The first relates to the apparent trade-off between growth and regional development as recently argued by the World Bank. In my view, this is a misconception based on the idea that growth concentrates in few regions, mainly in large metropolitan areas.

Yet, as the OECD has demonstrated in its background report to this conference, this is simply not the case. This is also confirmed by the EU experience. For example:

- Many regions outside rich regions have been growing at a faster rate than the EU average, and in some case also faster than the rich / capital city regions.
- Only in two countries of the EU15 (France and Greece) did the capital region generate more growth than the other regions between 1995 and 2005. In most countries, more than 70% of national growth is generated outside the capital region.

- In Germany, Spain, and Italy, most of the poorest regions grew faster than the national average.
- Growth in the Central and Eastern Member States of the EU was higher than the EU average in virtually all regions between 2000 and 2005, not just in their capital regions.

In addition, I would argue that the distinction between national growth and regional development is artificial since national growth hinges crucially on the growth in the regions.

Moreover, evidence does not confirm that a concentration of people or economic activity does not necessarily lead to higher economic growth, contrary to wide-spread beliefs. Between 2000 and 2006, European agglomerations did not generate more growth nor did they attract a higher share of the EU population.

Importantly, rural regions generate a lot of growth. As a result over the past ten years, rural regions of the EU have increased their GDP per head more than urban regions did.

My first conclusion is that in principle all regions are capable of growing but some need to be stimulated to do so. Hence, growth should be supported everywhere.

But, if the above is true, what is it that prevents policies organised in the centre to stimulate growth throughout the territory. I think that this touches one of the most important problems of development economics and leads me to my second point.

Do central governments know enough? Are we able to target investments from policies designed and decided in capitals? How can we adjust policy priorities to reflect local preferences?

Reality is that "we do not know enough" and it is therefore essential to understand local preferences and use local knowledge in order to channel public resources towards the most productive investments. "One size does not fit all" really means that policies and economic institutions need to be designed to reflect local contexts. But the information which is necessary to tailor investment policies is held by local actors.

Place-based policies can and do offer the governance system which allows doing precisely that: reveal local information, combine it with strategic direction, and coordinate interventions between levels of government. This is the experience of European cohesion policy from which we can draw conclusions for all OECD countries in my view. In the EU we have been championing over the past 15 years: move away from the notion that the central State knows better; move away from thinking that intervention can be optimised by distributing the responsibility for investment between levels of governments; instead, embrace the idea that economic development needs to be based on a system of structured dialogue and coordination between different actors and levels of decision.

My second conclusion is that place-based policies, designed by local knowledge, allow to better target resources on growth-enhancing investments.

My last point is about integration. The OECD report has shown that economic performance ultimately rests on the capacities of regions to effectively use their assets. This depends very much on the ability to

develop integrated approaches which combine simultaneously a wide variety of instruments, from infrastructure provision to skill upgrading to innovation in firms.

Indeed, very strong interdependencies exist between different types of public goods and services, whereby the impact of one depends on the provision of the others. This integration can only be achieved through dialogue with and active contribution of sub-national agents.

In conclusions, place-based policies seem to be better suited to direct public resources towards the most productive investments; to overcome information asymmetries and reveal local knowledge and preferences; and to allow for integrating interventions in a coherent and effective way.

Regional policies throughout the OECD have been on the defensive for a long time, squeezed between powerful sectoral constituencies and demands for immediate and measurable results. We have spent a lot of time to improve the design of regional policies, to strengthen their evaluation, to make them more performance-based.

But now I think it is time to argue that place-based policies have a lot to offer to address this crisis and to ensure that public resources are used in most effective way not only short term, most importantly, in view of the economies we want to see at the end of the crisis.

I am looking forward to the discussion.