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The European Investment Strategy: the Role of National, Regional, and Sectoral Policies

FeBaF

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1. Theses

- Two theses:

(1) A structural path of growth in the euro area ←→ European Public-Private Investment Plan (PIP);

(2) Adequate financial support for PIP ←→ deep restructuring of the European financial market.

2. PIP

- Need for a European PIP to re-start a structural path of growth in the euro area 🡐 because of crucial factors (a)-(c).
- (a) The euro area’s growth rate cannot be based on the dynamics of its net exports due to:
  - the importance of the euro area in the world economy;
  - the difficulties facing emerging economies;
  - the new role of the US economy.
- Hence: the EMU’s growth depends on aggregate demand in the internal market.

2. PIP

- (b) "Path dependence" characterizing the EMU's Member States (MSs) = incompatibility with convergence towards a unitary model.
  This ➔ One size cannot fit all.
- (c) However, persistent and wide macroeconomic disequilibria across MSs = incompatibility with a monetary union not based on transfers/risk sharing.
- Hence: complementarity vs. competition across MSs to allow the euro area to reproduce itself as a monetary union.

2. PIP

- Implication from (a) = EMU's growth depends on aggregate demand in the internal market.
  Implication from (b)+(c) = EMU can reproduce itself if it achieves complementarity across MSs.
- Result: PIP is needed to allow a structural path of growth in the euro area without excessive macroeconomic imbalances.
  PIP's essential feature: asymmetry in investment allocation to stimulate growth in peripheral MSs.

3. Financing

- Financing is a key factor for the implementation of PIP.
  Possible sources of these financial flows:
  - EMU’s new budget (beyond the leverage ratios of the Juncker Plan);
  - European financial market (beyond the national segmentation of the credit market)
- In this perspective, Banking Union process = crucial to overcome the negative legacy of the international and European crises.
  However, Banking Union also ➔
  end of the peculiar European bank-centrism.

3. Financing

- Implication = need for an efficient European market for corporate bonds.
  This is difficult to achieve for ‘peripheral’ MSs due to:
  - their tiny markets for private bonds;
  - the small size of the largest part of their non-financial firms;
  - the lack of innovative infrastructures.
  Italy = one of the best examples.
- Possible solution: the development of a European market for corporate bonds based on appropriate securitization processes (to ease access by SME).