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By Martin Myant*

Juncker's investment plan: What results can we expect?

Abstract

The European Commission has presented a plan for € 315 bn of new investment. This is justified by the observed fall in investment since 2008 – much greater in some countries than others - and by the need to revive economic growth. Evidence shows that investment has fallen because of low demand and strict budget rules within the Eurozone. The plan will be financed by a small public guarantee achieving a high leverage rate by supporting credits from the EIB and the private sector. The investment supported is likely either to be much less than hoped or to be biased towards safer projects in higher income countries, increasing rather than reducing divergences across the EU. The plan could be improved by setting clearer objectives and criteria, increasing its scale and, above all, by allowing some relaxation of the strict budget rules applied within the Eurozone.

1 Introduction

The idea of a systematic plan to boost investment and hence to spur economic recovery across the European Union was thrust into the centre of European policy making in the autumn of 2014 by the newly-appointed President of the European Commission Jean-Claude Juncker. It came as one of three key economic policy pillars, alongside continuing commitment 'to intensifying structural reforms' and so-called 'growth-friendly fiscal consolidation' (European Council 2014: 1). Together, these were to restore growth and prosperity in the European economy.

The outline of the investment plan took shape in the last months of 2014 and early 2015 and met a generally positive, if often sceptical, welcome. The outline proposal was approved at the European Council meeting on 18 December 2014 with more details and clarifications coming in the following weeks (European Council 2014, European Commission 2015a). A total of € 315 bn of new investment was predicted for the three years 2015-2017, equivalent to 0.8% of EU GDP, leading to a slightly higher increase in total GDP. This is to be achieved by creation of a guarantee fund of € 21 bn, from EU sources which, it is claimed, will enable financing from private sources for total credits of 15 times that much. As will be argued, that leverage rate is not impossible, but the plan as currently conceived will do little to overcome the deeper problems in the EU and especially the Eurozone.

A stimulus to boost growth was not a new idea. Measures to boost demand, by running fiscal deficits, were proposed by the European Commission and also the IMF in late 2008. However, the stimulus packages of 2008-9 were rather ineffective, rarely reaching the promised scale or taking

* Martin Myant is Head of the Unit for European Economic, Employment and Social Policy at the European Trade Union Institute (ETUI) in Brussels and these themes provide the principal focus of his current research. He was formerly Professor at the University of the West of Scotland, UK. He has written or edited 12 books on economic and political developments in eastern and central Europe, including the economic and social transformations since 1989 and their implications for economic competitiveness.

the most appropriate form, often amounting to little more than reductions in business taxes (cf Watt 2009). Moreover, this was a short-lived episode and any increases in spending were reversed as the emphasis shifted to fiscal discipline and austerity especially from 2010.

Ideas for stimulating investment then made periodic appearances as a means to stimulate growth that could run alongside austerity in other policy fields. Thus in June 2012 the European Council agreed its Compact for Growth and Jobs, with a commitment to a € 120 bn investment package. The key to this was an increase in capital of the European Investment Bank (EIB).

However, the Eurozone continued to record negative growth in 2012 and 2013 and the Juncker plan is intended to help reverse that trend. It has clearly been developed in the face of political constraints which rule out the general stimulus favoured in 2008-9: that would require abandoning austerity and adopting greater flexibility in fiscal rules, changes at odds with the prevailing interpretation of 'fiscal responsibility'. State budget constraints also ruled out increased capitalisation of the EIB which would require contributions from all EU member states.

The result is an investment plan which is likely to contribute to some increase in investment, but not to enough to satisfy needs that have already been identified in member states and not enough to provide a substantial economic stimulus in the context of continuing policies of fiscal restraint. Nor will it contribute much to long-term aims of overcoming imbalances in the Eurozone or divergences across the EU as a whole. Indeed, it has been put together without consideration for such long-term aims and is likely to provide most support to investment in those countries that need EU help the least. It has the potential to provide more to countries outside the Eurozone than to those within and to provide more to those Eurozone countries that can already borrow with the least difficulty. Thus it may contribute a little to restoring growth across the EU, but at the expense of increasing economic divergences.

This contribution analyses the strengths and weaknesses of the Juncker plan with the aim of predicting its impact on the EU as a whole and within individual countries. Sections that follow cover the justification for an investment plan, the explanations for its currently low levels, the means of financing and direction of the plan and available evidence that can indicate the forms resulting investment is likely to take.

2 Why investment

The justification and background to the Juncker plan are set out in various policy statements, above all in a substantial report produced by the so-called Special Task Force, set up in September 2014 with representation from the European Commission, the European Investment Bank and member state governments. Its final report (Special Task Force 2014), produced in December 2014 gave a justification for the plan and filled in details on how it could be developed. It left no doubt of a perceived need for substantial investment. Member states were immediately able to identify 2000 projects awaiting implementation with a cost of € 1300 bn, of which € 500 bn could come in the following three years (Special Task Force 2014: 10).

The simple argument for special measures, as presented in the Special Task Force's report, is that investment had fallen 15% below its pre-crisis peak and this was said to be the major cause of continued economic stagnation.

Two immediate reservations are, first, that the ultimate cause of low investment remains to be proven: it could be low overall demand or austerity policies so that targeting investment might be the wrong starting point. Secondly, the Juncker plan would cover only about one quarter of the gap it identifies.

TABLE 1 GROSS FIXED CAPITAL FORMATION AS PER CENT OF GDP IN A SAMPLE OF EU COUNTRIES, 2004-8 AND 2014.

	2004-8	2014
EU	22.0	19.4
Eurozone	22.5	19.5
Germany	19.7	19.9
Estonia	34.1	26.3
Ireland	27.3	16.1
Greece	23.6	11.5
Spain	30.0	18.5
France	22.5	21.4
Italy	21.3	17.4
Austria	23.2	22.1
Poland	20.4	19.7
Portugal	22.8	15.3
Romania	31.2	22.6
Sweden	23.1	22.6
United Kingdom	18.1	17.4

Source: Calculated from AMECO database
Note: 2014 figures are estimates.

The case for boosting investment in some countries at least is strengthened by the observation of wide divergences in the extent of the fall. Table 1 compares investment as a percentage of GDP in 2014 with the period of the pre-crisis boom. While GDP had recovered, investment remained depressed with particularly severe declines in Greece, Ireland, Cyprus, Romania, Spain and Baltic Republics. Most of the decline was in private investment, but public fixed investment also fell by more than 50% in Ireland, Spain and Greece. Some other countries stood up rather well with only small reductions in Poland and Sweden and an increase in Germany. Thus if the extent of the declines and the levels reached relative to GDP are the key criteria, then the plan should embody a clear geographical bias.

It could be argued that these declines should not be interpreted entirely negatively as the level of investment up to 2008 was partly directed into unproductive assets, especially private housing, and was based on high levels of credit that proved unsustainable (cf Gros 2014). This does point to the need to answer questions about the direction of future investment, but it is not a persuasive argument against an investment plan as such. The financial crisis was not caused by credits for investment alone. It followed in large part from banking activities unrelated to real investment. Nor can it be assumed that current low investment levels reflect the limits of sustainability. Construction booms were important in a few EU member states, but the subsequent fall in investment affected almost all activities and sectors, with in many cases no obvious relationship to any conceivable past over-investment. Indeed, investment has been brought to extraordinarily low levels in a number of countries, leaving unemployed people and capacity that could contribute to a revival of well-directed investment activity. A final point here is that, as indicated by the list of projects prepared by member states, there are identifiable needs for new investment in both public and private sectors.

However, a strong case for an investment plan does depend on more than just evidence of past decline. It needs to be demonstrated that an initiative at EU level will bring positive results. Here the Juncker proposal is cautious, predicting an increase in investment and a resulting stimulus to GDP growth, but giving no forecast of its longer-term impact. A justification purely in terms of a short-term stimulus alone would miss much of the potential benefit of an investment plan. Indeed, if the aim is simply to increase demand then that could be achieved by using the same resources for current spending with the prospect of a more rapid impact.

The strongest argument for providing a stimulus by investment is that it will boost longer-term growth, with the short-term stimulus to demand a welcome by-product. This may also help to make it the most politically feasible short-term stimulus as the prospects for future returns will make it easier to finance from private sources as it should pay for itself from higher incomes in future years, assuming that the investment takes appropriate forms. Thus an advantage of investment over other forms of stimulus is that it can attract private finance to boost the impact of public spending.

The potential for a longer-term impact is implicit in specification within the plan of general directions for investment which correspond to the priorities set out by the EU, notably in the so-called 2020 Agenda (http://ec.europa.eu/europe2020/index_en.htm) launched in 2010, covering transport and energy infrastructure, education, health, research, information and communication technologies, innovation, renewable energy, infrastructure for the environment, urban renewal and social fields. There is also to be financial support for smaller businesses. No effort is made to estimate the long-term impact of such investment. There are studies that show significant positive impact from public-sector infrastructure investment (for discussion, See Truger 2015), but only at quite a global level.

Thus the conclusion from this section is that a strong case for investment has been made, but with open questions over how an investment plan will ensure that it is directed towards the countries where it is most needed and that it will take the optimal forms.

3 What is investment?

There are problems both with identifying what investment should be judged productive and following from that with how investment should be defined. Investment refers to spending that contributes to higher incomes in the future. It is usually taken to mean physical products; buildings, machinery and the like. This comes in national accounts under the heading of 'gross fixed capital formation', the measure used in Table 1. That includes investment in commercial businesses intended to enable production of goods and hence to bring financial returns in the future. It also includes investment in infrastructure, such as roads and public buildings that may be publicly funded and that will not lead directly to financial returns but could be expected to do so indirectly by increasing productivity across the economy. Fixed capital formation also includes private house building which appears closer to private consumption in that it improves living standards but has no necessary implications for future production.

By way of contrast, an interpretation of investment as spending that increases production in the future points to the case for including some activities that appear in private or public sector accounts as current expenditure, along with consumption, but which should bring long-term benefits. Research spending has been reinterpreted in national accounts from consumption to an addition to fixed capital, albeit with difficulties and simplifications in how it will be measured.

Education has also been reinterpreted in European Union and EIB thinking not as consumption but as investment in human capital as it leads to higher productivity of people in the future (EIB 2006: 2-3). However, in national income accounts only investment in fixed assets that can be used for education appears as investment. Ongoing activities are classified as consumption.

Nevertheless, improved education is widely accepted to have contributed to past growth. Returns to education have been evaluated by its effects on personal incomes, which generally rise with the years spent in formal education. That arguably ignores many further benefits of education to society. It also offers widely differing results between countries, reflecting partly different income levels and different degrees of inequality (OECD 2009).

These points have three important implications for an investment plan. The first is that a definition that confines investment to fixed capital formation would be illogical and unnecessarily limiting. It should include elements that appear in accounts as current spending. The second is that using such a definition would be particularly harmful at a time of strict constraints on state budgets. There would be little point in financing investment in physical assets if current spending is not allowed to run and make use of them. The third is that returns to investment need to be assessed with care. Thus, for example, taking returns to education from personal income levels risks biasing investment towards higher income countries. Investment in lower-income countries, on the other hand, might be judged more positively if it contributes to wider economic and social development.

4 Why is investment so low?

A justification for specific measures to boost investment should also include an explanation for the causes of the previous decline. Without that there would be no reason to assume that the Juncker plan could lead to a revival. The explanation offered by the Special Task Force (2014: 5) pointed to 'a wide array of barriers and bottlenecks'. That is important for justifying policy responses beyond just the investment plan, in other words to include structural reforms and fiscal consolidation. In fact, there is nothing in the Special Task Force report to suggest a positive relationship between fiscal consolidation, essentially meaning keeping to the rules of the Stability and Growth Pact, and levels of investment. Nor is there much reason to see a link with structural reforms. This term has frequently been used to mean policies to reduce employment protection, the scope of collective bargaining and ultimately wages and there is no basis in the Task Force's analysis for expecting such measures to contribute to higher investment.

These thoughts, and much of an accompanying emphasis on regulatory uncertainty and administrative burdens, do not follow from an analysis of what led to the fall in investment. They rather echo preoccupations present in past European Commission policies. Lack of consistency in regulations and differences between countries can be judged undesirable, but they are not new phenomena and therefore cannot be seen as the cause of the low level of investment after 2008. Indeed, the Special Task Force report offers no argument as to how they could be.

In fact, the key constraints on investment are recognised at various points in the report. They differ between the private and public sectors. The issue for private investment has been 'low demand growth, low levels of capacity utilisation, heightened economic and policy uncertainty, and, in some countries, the bursting of construction/ housing bubbles, corporate deleveraging and financing constraints' (Special Task Force 2014: 8), leading to expectations of continued low demand in the future. Despite frequent references to business confidence, as if it were an independent influence, the issue is rather one of low expectations that reflect an accurate perception of reality. Demand is low and there is therefore every reason to hold back on investment. The importance of this factor in explaining low levels of business activity comes out clearly from the European Commission`s Business Surveys and from the European Business Cycle Indicators (European Commission 2013a).

Up to 2008, 60% of managers in manufacturing firms reported no barriers limiting production. This fell to 40% in 2009 and only partially recovered in the following years. The main barrier was identified as 'insufficient demand' and this never returned to its pre-crisis levels, remaining at around 40% of respondents (European Commission 2013a: 9). Finance was a problem for far less, growing in importance somewhat in 2009 and remaining relevant to 7-8% of businesses. It was a particularly severe constraint on businesses in Greece, Spain, Italy and Cyprus, affecting almost 50% of businesses at one point in the last of these (European Commission 2013a: 10). It was relatively short-lived and unimportant in Germany and France.

Bank lending has also failed to recover in full from the low point in 2008. Wide divergences between countries were revealed by an ECB survey for the six months up to March 2013 showing that 85% of SMEs seeking credits in Germany encountered no obstacles, while only 25% in Greece had the same good fortune (ECB 2013). Interest rates charged also varied widely, with businesses in periphery countries paying about twice as much as those in Germany. It can be added that effects on economies as a whole were compounded by the greater importance of smaller businesses in the countries worst affected while larger firms are more important in France and Germany and they are the ones most able to finance investment, should they feel it justified by demand levels.

Research based on a survey of borrowers and lenders in six Eurozone countries showed a number of factors contributing to the decline in lending to SMEs (Bain et al 2013), including banks' need to be more cautious after the financial crisis, changes in the structure of banking that reduced competition between potential creditors and the disruption of long-established links between lenders and borrowers which made assessments of credit-worthiness more difficult.

However, the differences in lending between countries appear to be more a consequence than a cause of differences in economic conditions. Evidence from ECB surveys show banks' risk perceptions 'concerning overall economic activity as well as industry and firm-specific developments' playing an increasing role in the tightening of credit standards (ECB 2013: 45). Reluctance to lend reflected banks' fears that demand would remain depressed and credits would not be repaid - (eg the comment on Ireland, Bain et al 2013: 28) - a logical fear in countries faced with the most severe austerity policies and a logical fear in relation to SMEs that tend to be domestically- rather than export-oriented. A restoration of bank lending therefore depends to a great extent on increasing demand in those countries where it has been the most depressed.

Thus the conclusion for private investment is that it will not be greatly helped by the Juncker plan. 'Fiscal responsibility' and 'structural reforms' offer no solution. Help directed towards SMEs may offer something, but the biggest barrier for them is on the side of demand with limited access to credit largely a consequence of low demand. A revival in public investment would help private-sector activity, by direct and indirect demand for its output, thereby contributing something to the will to invest.

The barriers to public sector investment can be deduced from the list of projects submitted to the Special Task Force. These cannot be taken as definitive. They were put together by member state governments in considerable hast, using ideas at different levels of preparation. Of almost 2000 in the main list, the report looked in more depth at an illustrative sample of 46 which were mostly at an advanced stage of preparation. This list including clearly public sector projects, some mixed and some that were to be run by private companies but with close links to public policy issues. Funding is strongly dependent on public provision or, at the minimum, implicit public guarantees.

Finance appears explicitly as the key barrier in all but three. One of these was a complex cross-border project and the other two were airport extensions requiring difficult political decisions. As far as the others are concerned, for some the barrier was a lack of long-term finance, for some it was the effects of Eurozone budget rules and the cuts that had been imposed while for some it was the unattractiveness of the projects to private lenders. Remarkably, regulatory issues appear even in a secondary role very rarely, one of the few examples being a German off-shore windfarm development with private involvement where the issue was said to be uncertainty over future government support. Thus it is not an issue of excessive regulation, a frequent complaint from business, but rather of possible changes in implicit subsidies at a time of potential energy price volatility.

So, despite Juncker's references to three strands to his policy for increasing investment, the key issue comes down to demand for the private sector, which could be increased to some extent by a public-sector stimulus, and to finance for the public sector, hit by budget rules and austerity policies.

5 How will the plan be financed?

The mechanics of how the Juncker plan will work can be set out under three headings; the raising of finance, the repayment of credits and the organisational and decision-making structures. Of these, the raising of finance is not seen as difficult. A central argument behind the Juncker plan is that there is no shortage of long-term finance seeking safe outlets. There is evidence to confirm that this is the case and that it has been the case for some years. Indeed, there are enough financial resources available to support a considerably larger investment plan, provided there is a willingness to take on debt.

That comes, for example, from research of the views of long-term investors, such as pension funds, received in response to a Green Paper on long-term financing issued in April 2013 (European Commission 2013b). The amount needed annually to meet the Juncker plan's needs, the equivalent of 0.8% of EU GDP, is about 2.5% of what EU governments borrow annually, in several cases at interest rates around zero in real terms. This should be comfortably manageable.

However, mobilising this private finance would depend on a public financial contribution to provide a guarantee against the possible failure of a borrower to repay a credit. The obvious available vehicle for achieving this has been the EIB. That requires paid-in share capital, coming from all member state governments roughly in proportion to their GDPs, which enables the bank to borrow on financial markets at low rates of interest.

It then lends to both commercial and public-sector projects, with each in the recent past representing about half of total lending. The latter are the responsibility of that country's government. The former often require a government guarantee so that a significant body of EIB investment is already guaranteed by governments. The practice has been to seek co-financing, although this is not a statutory requirement, meaning that investments are also partly financed by another body. This gives the potential for a multiplier effect, with considerably more total investment than that promised from the EIB alone. In June 2012 the European Council launched its Compact for Growth and Jobs and increased the EIB's capital by €10bn. This, it was claimed, would enable the EIB to borrow on financial markets at low interest rates and lend €60bn which, with established co-financing practices, would lead to total investment of €180 bn. This is essentially the basis for the calculation of the leverage ratio in the Juncker plan.

However, the Juncker plan goes for a different financing mechanism based on the establishment of a fund, the European Fund for Strategic Investment (EFSI), with a starting value of € 21 bn, of which € 5 bn will come from the EIB, € 8 bn will be gradually transferred from other parts of the EU budget and the remainder will be a guarantee from the European Commission. This will then be used to guarantee credits from the EIB and possibly also private sector longterm investors to favoured projects reaching, so it is hoped, the value of € 315, fifteen times the original commitment. It is also hoped that the initial sum will be increased by contributions from member state governments.

This has three obvious attractions for the European Commission. The first is that it avoids putting any new demands on member states, which would not be the case for an increase in the EIB's share capital. The second is that there will be no need for extra finance. The third is that it can be done quickly, without complex negotiations in the European Council. The EFSI will have the legal status of an independent fund falling within the EIB family.

However, these advantages to policy makers come with costs. The EU is committing only a small guarantee and relying on a leverage rate derived from estimates of what has been achieved in the past from the EIB's most secure long-term investments. It is not true of all of its lending activities. The total investment will therefore either be strongly focused on countries in the least difficulty or fall well below the target level.

Moreover, there is no reason why member states should commit extra resources to the EFSI. They are expected to do so out of a general desire to help EU economic recovery (European Commission 2015a) without any promise of return, with no guarantee that their projects would be financed and without any direct ability to influence investment decisions. A small number of governments came forward quickly to say that they would be willing to contribute, but exactly how or when they will do so remains unclear. German Finance Minister Wolfgang Schäuble was reported on 27 January insisting that his country would not contribute but should provide financial help for investment within Germany. That is not a surprising view. The conclusion is that the initial guarantee of € 21 bn is unlikely to increase much, if at all.

6 How will debts be repaid?

Assuming that investment credits are actually granted, the next question is how debts will be repaid. Where investment is commercially viable, repayment should come from future returns. However, most public sector investment will provide returns in the form of social rather than private benefits and often quite far into the future. The obvious solution is to repay out of state budgets of the governments responsible for the investment, but that is bound to be difficult for countries constrained by Eurozone debt rules.

The only solutions proposed are either 'an increased adoption of the user-pays principle' (Special Task Force 2014: 48), meaning higher charges for public services, or silence. This latter applies for urban transport and regeneration of urban neighbourhoods, for which the EIB has in the past judged financial viability by governments' commitment to provide and continue subsidisation (EIB 2011: 18-21), something which has become much less certain since 2010. The implication is that investment will be biased towards projects offering quick financial returns and towards countries free from the constraints of the Stability and Growth Pact or, if already covered by Eurozone rules, facing the least budget difficulties.

This is a highly unfortunate by-product of the Eurozone budget rules as it can easily be demonstrated that repayment should present no serious problem once growth resumes. Indeed, it may be because the calculations are so simple and the results so decisive that they are rarely considered or presented. As demonstrated with case studies in the IMF's World Economic Outlook of October 2012, repayment is most difficult in the context of lasting economic stagnation and falling price levels (IMF 2012: 101-126).

Thus the strict rules on budget deficits and debt levels within the Eurozone work to limit the geographical potential of the Juncker plan. There are two small concessions towards reducing the effects of austerity, but they will not equalise conditions across the Eurozone, still less across the EU as a whole. Member states that contribute to the EFSI will not be penalised for a resulting breach of the Stability and Growth Pact, provided it is small and temporary, and some co-financing may also be viewed with benevolence in a country with negative growth or a GDP level judged to be 'well below its potential' (European Commission 2015b: 7-9). That is far short of allowing exemption from the Stability and Growth Pact for all activities linked to the investment plan (both investment in fixed assets and the associated current spending), a step that should not, once growth resumes, carry any risks of escalating public debt levels. On the contrary, by helping to restore growth it should work to reduce budget difficulties.

7 What organisations will be needed?

The Juncker plan is built with a minimal need for new institutions. Decisions are to be taken by an Investment Committee of the EFSI made up of 'independent market experts' (European Commission 2015a). The EFSI in turn will formally fall under the EIB but it will have its own distinct financial profile and decision-making procedures such that it does not affect the EIB's overall credit rating. The general picture is of a very simple organisational and governance structure with investment decisions well removed from direct political influence. The EFSI will assess applications and those approved will then be eligible to receive EIB support in the form of a credit, an equity stake or by a guarantee for private financial support.

Issues remain to be clarified with respect to the place of the EIB. European Commission Vice President Jyrki Katainen has referred to it using the 21 bn guarantee as a basis for issuing AAA-rated bonds, thereby strengthening its ability to lend (Katainen 2015). It will then, so it is hoped, lend to projects that it might otherwise have judged too risky. This leaves three open questions. The first is whether it needs to respond to an EFSI guarantee on a project: the EIB will presumably take the decision on whether to grant a credit on the basis of its own assessment. The second is whether the guarantee will cover only the EIB credit or also co-financing from private banks. The third is whether the guarantee is to cover higher risks on credits only or whether it is intended to allow further EIB bond issues without which it would be difficult to increase lending. It would appear that EFSI will allow either for riskier lending or for an overall increase in lending activity, but it cannot cover for both.

8 What will the plan offer?

Even if the Juncker plan does not live up to all its promises, it is likely to have some impact in increasing investment. This section looks at where past EIB investment has been directed and at the details of projects proposed by member states to the Special Task Force.

The geographical bias of EIB lending is shown in Table 2 for a sample of EU member states, showing credits approved per capita. As EIB loans tend to be large in scale and small in number, the figures do fluctuate somewhat from year to year, but there is evidence of very substantial differences between countries without obvious explanation in terms of geography or income levels. It appears that some countries are better than others at attracting EIB credits. There are some specific general explanations. Bulgaria and Romania suffered from concern over perceived levels of corruption. Generally, however, understanding differences between countries requires a more detailed breakdown of the credits that have been granted.

EIB credits are classified by their objectives within EU policy and by sector. The objectives are defined under three broad headings of growth and employment potential, environmental sustainability and transversal indicators. These are then further broken down such that the first includes knowledge economy, transport, competitive and secure energy, SMEs-midcaps, and urban renewal and regeneration, including health. The second includes environmental protection, renewable energy and energy efficiency and sustainable transport. The third includes convergence and climate action. Projects are then classified in relation to these objectives with many falling under more

TABLE 2 EIB CREDITS IN EUROS APPROVED PER CAPITA FOR A SELECTION OF EU MEMBER STATES, ANNUAL AVERAGE

	2010-2014	2014
Bulgaria	46	84
Denmark	102	155
Germany	104	96
Estonia	148	192
Greece	176	141
Spain	264	256
France	115	125
Latvia	47	54
Romania	35	30
Finland	225	191
Sweden	193	146
UK	102	109

Source: Calculated from EIB 2015.

than one heading. The sectoral classification includes energy, communications, water and sewerage, urban development, industry services agriculture, education and health.

Some activities seemed popular in almost all countries, notably transport and energy infrastructures. In others the differences between countries were enormous. The knowledge economy simply plays no role in Bulgaria, Romania and a number of other countries. It is overrepresented in Germany, thanks to credits to manufacturing companies for new technology development, but that kind of activity was largely confined to those few countries which already had large and strong multinational manufacturing companies. It would therefore seem likely that, in the absence of other very active measures, the investment plan will maintain the geographical concentration of high-level R&D.

Knowledge economy elsewhere was about education, again with very variable levels between countries, including proportionately high levels in Cyprus, Ireland, Portugal, Estonia and Finland, zero over the 2010-2014 period in Bulgaria, Denmark, Latvia, Lithuania, Malta and Romania and very little in Sweden and the Czech Republic. High levels followed from university construction and upgrading and, in the case of France, from renovation of secondary-level education. This appears to be an area in which investment was possible irrespective of the country's income level, suggesting considerable potential across many EU member states. An investment plan therefore could, if accompanied by appropriate rules to overcome state budget constraints, lead to substantial expansion where education is currently underdeveloped.

Another area of differentiation was support to SMEs which largely takes the form of guarantees by the European Investment Fund, part of the EIB group, to enable private banks to grant credits. This was strongly overrepresented in 2014 in Cyprus, Spain and Portugal, but strongly underrepresented in Bulgaria, Romania, Finland, Sweden and the UK. There would appear to be potential here for expansion in low-income countries, but presumably less need where existing banks are already capable of granting credits to small firms.

The project proposals for the Juncker plan need to be interpreted with caution. They came at differing levels of preparation such that precise comparison is difficult and many of the proposed projects are likely to be judged ineligible as they are already receiving funding from other sources. Table 3 shows the share in total investment across the EU relative to population levels for a small selection of countries. High demands come primarily with proposals for big projects in transport and energy infrastructure. Thus for Estonia most of the volume of investment was set for railways and for oil-shale production, with the latter one of the relatively few cases that did depend on decisions on regulations.

There were more detailed proposals from some countries relating to innovation and new technology, but they generally were not as expensive as those from transport. The nature of the process may have made it harder for private companies to react quickly, contributing to lower representation from countries where innovation in manufacturing had been important in EIB credits.

The large projects were typically held back by lack of finance or by uncertainty over future returns discouraging private investment. This applied, for example, to a number of innovative energy-related projects proposed from the UK – including incidentally also nuclear power - which were seeking some kind of public support. This could have been provided by a UK government less concerned to hold spending in check, but the Juncker plan would make possible a form of public subsidisation without anything appearing as UK public debt. It remains to be seen whether the guarantee in the Juncker plan will be enough to allow funding for investment in such apparently risky projects.

The number of projects offered suggested different levels of preparation. Sweden gave only a very general statement relating to four investment areas. Bulgaria proposed hardly anything. Latvia found 58 projects and Greece came forward with 174 projects, albeit often at quite an early stage of preparation. These were almost all held back by lack of funding, although some also lacked staff and resources to run facilities once they had been created. The interpretation of investment in several cases was potentially wide enough to go well beyond physical assets, including as it did language training for the police and digital training for citizens.

Proposals from governments are subject to continual updating, but a likely outcome would appear to be some support to large-scale energy and transport projects in those countries where repayment is judged to be assured. There is to be help offered within the Juncker plan for countries to develop viable proposals. They will already be able to look at, and learn from, what others are doing. That could make a difference to some, but will not overcome the financial constraints in those that cannot breach the rules of the Stability and Growth Pact.

TABLE 3 PROPOSED CREDITS PER CAPITA WITHIN THE JUNCKER PLAN

	Credits per capita, euros	Credits per capita, per cent of EU average
Belgium	6917	270
Bulgaria	483	19
Denmark	3874	151
Germany	1098	43
Estonia	9880	385
Greece	3775	147
Spain	1138	44*
Latvia	2708	106
UK	2814	110
EU total	2565	100

Source: Calculated from Special Task Force, 2014, Annexes.
Note: *Refers to spending considered feasible 2015-2017 only.

9 Predicting the effects

The Juncker plan is likely at some point to lead to an increase in the level of investment. However, this is likely to be greatest in those countries that need EU help the least and smallest in those that need it the most. Indeed, a remarkable feature of the Juncker plan is that the constraints imposed by continuing commitment to austerity policies mean that there is no obvious argument for such a programme to be run from the European level. There are some cross-border projects, but they are only one part of the total. For the most part, the same effect could be achieved from programmes run separately in individual countries following relatively small relaxations to budgetary rules. The obvious step would be to exclude investment and associated current spending from calculations of budget deficits and debt levels under Eurozone rules. That would enable states to provide co-financing, to repay debts incurred and to make use of new facilities when they have been completed.

As currently conceived, the Juncker plan misses a unique benefit from coordination at the European level which is that it can bring investment to countries that need it the most, raising finance from private investors who will be able to trust an EU-level institution. Thus the 'South' can benefit from the credit-worthiness of the EU as a whole. If investment is then biased towards countries in the greatest need, that need be no more than a temporary transfer between countries. Even if economically stronger regions contribute more to financing than weaker regions, loans will have to be repaid out of the resulting higher GDP levels, so that there would be no net transfers between countries (cf ETUC 2013).

The Juncker plan supports no such process. A reasonable forecast is that it will lead to some increase in investment in EU 'core' countries with little for that part of the so-called 'periphery' that faces severe public-debt problems. It may therefore serve to increase rather than decrease existing divergences. However, even that will depend on how governance rules are applied in practice. The plan is intended to support projects that would not otherwise have been financed. That seems a safe claim for the plethora of Greek proposals, but they are likely to founder over the constraints on debt and public spending. It might be less plausible for proposals coming from a non-Eurozone country such as Sweden which suffers neither from high public debt levels nor from a commitment to achieving a budget surplus. For such countries the most likely areas for investment finance would be large-scale energy projects and cross-border transport links, those being activities that require very long-term, and sometimes risky, investment that would arguably be difficult to finance even for governments in excellent financial positions.

10 Conclusion – how the plan could be improved

The Juncker plan represents a possible start to a new economic policy direction for the European Union. However, it suffers from serious weaknesses that will limit its effectiveness. These can be explained in terms of recent EU political realities. The plan has been developed essentially in the framework of policy continuity. No sacred cows of the immediate preceding years are to be challenged and no member state governments are to be troubled. There is a pragmatic logic to this, but the result is a programme that will have limited economic impact.

It could be made more effective and coherent by improvements in five areas;

1. It could be set the clear objectives of providing an immediate stimulus, of satisfying identifiable needs for economic and social modernisation and, above all, of starting to reduce the divergences across the EU.
2. The scale could be tailored more to the needs of the above objectives. The volume of projects identified by member state governments and included in the preliminary list is equivalent to approximately four times the volume initially proposed for the Juncker plan. This justifies a larger project to run over a longer period. That in turn raises further questions about governance and organisational forms that would be required for its implementation.
3. Ensuring that investment is undertaken and biased towards the areas that need it the most requires criteria that reflect those aims. Commercial viability is adequate for many private-sector projects. Criteria that relate to wider development objectives, difficult to evaluate in precise financial returns and not providing revenue streams to the investor, should also be used.
4. An ambitious investment plan requires a strong and well-equipped organisation to coordinate and evaluate projects. The EIB has the most experience, but mostly in supporting relatively small numbers of projects. It would need to take on a larger role and there would need to be clear outside control over priorities and guidelines. Moreover, there would need to be consideration of the difficult task of creating organisational forms within member states that can come forward with project proposals and monitor and evaluate implementation of past projects.
5. Above all, success for an investment plan depends on relaxation of the rules that lie behind austerity, low demand and the prolonged stagnation in the EU. The limits set for the Eurozone are not related to any proven level at which debt is in danger of becoming unsustainable. Indeed, most EU members have passed the 60% debt quota and many of those below that level pay more to borrow than many above. Rules should be relaxed, at the minimum, to give clear support to the investment plan and economic recovery. Logically, that should include contributions into an investment fund or to an EIB capital increase, public co-funding of projects, repayment of debts and current costs of running projects once they are in operation.

With those conditions met, an investment plan could play a role as part of a strategy for reviving economies across the European Union.

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