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Which European Investment Clause?

28/10/2013 BY FRANCESCO PROTA AND GIANFRANCO VIESTI LEAVE A COMMENT

Francesco Prota

As convincingly argued, among many others, by Paul De Grauwe, the current situation of European Union has also been produced by policy failures. The austerity policy imposed on the southern European countries coupled with the budget-balancing policies of Northern countries has created an asymmetric process in which most of the adjustment has been carried by debtor countries such as Spain, Portugal, Greece, Italy and Ireland. As a consequence, the recession that hit all peripheral countries (leading also to dramatic increases of the debt-to-GDP ratios, thereby weakening their capacity to service their debts) is still there. Expenditure cuts in the context of fiscal consolidation strategies have happened mainly at the cost of public investments, the expenditure category expected to be growth-enhancing, exactly the opposite of what the current economic situation of many European countries would have called for. Nowadays, there is a wide consensus (including the IMF) that fiscal austerity and investment cuts will not create favourable conditions for job creation and economic growth.

Gianfranco Viesti

What can be changed? The Heads of State or Government in the conclusions of European Council in June 2012 and March 2013 have opened, in a political statement, the door to the possibility that public investments which foster sustainable growth could be accommodated within European fiscal rules. The so-called "investment clause". On July 3, President Barroso stated that the Commission was exploring "further ways within the preventive arm of the Stability and Growth Pact to accommodate non-recurrent public investment programmes with a proven impact on the sustainability of public finances made by the member states in the assessment of their Stability and Convergence Programmes". And he announced that when assessing the national budgets for 2014, the Commission will "consider allowing temporary deviations from the structural deficit path towards the medium-term objectives set in the country specific recommendations on a case by case basis. Such a deviation must be linked to national expenditure on projects co-funded by the EU under the Structural and Cohesion policy, Trans-European Networks or Connecting Europe Facility with a positive, direct and verifiable long-term budgetary effect".

The political decision of the Council has been translated into technical policy prescriptions by the European Commission allowing temporary deviations from the Medium-Term Objective only for Member States in the preventive arm of the Stability and Growth Pact, and only on the following keys conditions: (*i*) GDP growth of the Member State remains negative or well below its potential; (*ii*) the 3% of GDP deficit ceiling and the public debt reduction rule are respected throughout the implementation of the clause; (*iii*) the allowed deviation is linked to the national expenditure on projects co-funded by the EU under the Structural and Cohesion policy, Trans-European-Network and Connecting Europe Facility with positive, direct and verifiable long-term budgetary effects. The deviation should be compensated once that a Member State regains GDP growth. Under these conditions, exemption would be basically relevant only for Germany and Italy, not including the countries most hit by recession; and it is not at all yet clear which amount of co-financing can be considered.

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The Euro crisis and its impact on national and European social policies

by Christophe Degryse, Maria Jepsen and Philippe Pochet (ETUI)

This critical working paper looks at the series of political choices, circumstances and windows of opportunity that have enabled one particular vision of the model of EU monetary union to gain acceptance. In the context of this model, political union is not considered an accessible way to manage the crisis, for the rescue of the euro is regarded as feasible only in a more competitive economy.

The social dimension, accordingly, becomes the adjustment variable. In this regard, the statements made by the President of the European Central Bank announcing the death of the European

It's a very modest proposal, even if a possible first step. It is evident how the scope of this loosening of the fiscal austerity constraints is too narrow compared to what it would be useful to avoid the trap of a prolonged recession as Europe is experiencing and to avoid increasing unemployment, destroying human capital, and prompting an exodus of talent.

On the contrary, the European Parliament has been more ambitious. A reference was added into one regulation of the "two pack" on monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (regulation n. 473/2013 of 21 May 2013 of the European Parliament and of the Council), to a report to be issued by the Commission by end of July 2013 "on the possibilities offered by the Union's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives in the preventive arm of the SGP, while complying with it fully" (art. 16.2). Moreover, the European Parliament approved on October 8, 2013 a resolution on the effects of budgetary constraints for regional and local authorities regarding the EU's Structural Funds expenditures in the Member States. Two point in the resolution are extremely important: (*i*) public expenditure related to the implementation of programmes co-financed by the European Structural and Investment Funds should be completely excluded from the definition of Stability and Growth Pact structural deficits, because this is expenditure devoted to achieving the goals of Europe 2020 and supporting competitiveness, growth and job creation; (*ii*) current spending and investment should be separated in the budget deficit calculations.

It is important to note that this resolution has been adopted by the European Parliament by 433 votes against 131 a substantial, large majority, including MPs of both the two largest political groups: the European People's Party and the Progressive Alliance of Socialists and Democrats. The financial and economic crisis has severely affected citizens' trust in the European institutions and it is strong the risk of a further increase in public disaffection towards Europe, in particular in Southern Europe creating a new economic and territorial cleavage between North and South: on this respect the importance of the resolution is clear. From an economic point of view, national co-financing of Structural Funds in the EU is estimated at 132 billion Euros for the 2007-2013, that is around 20 billions per year.

Allowing those expenditure would provide a relief to recession in the short term, as well as help most European countries to reinforce their competitiveness. The European co-financing and surveillance on the nature of the projects is indeed a guarantee that you are not including any current expenditure and that you are addressing growth-friendly spending items, such as education and training, R&D, human capital investments, including training. This would mean preserving investments aimed at achieving the Europe 2020 goals for growth and jobs. European policies, instead of being perceived as depressionary, would play a relevant role to exit recessions.

In the light of all the above considerations, it would be fundamental to exclude all national co-financing expenditures related to the implementation of programmes co-financed by the European Union from the budgetary surveillance rules under the Stability and Growth Pact. However, as reported in a recent communication by Commissioner Olli Rehn, Ministers of the EU Member States continue to be divided even on the European Commission's modest proposal. So, it is not yet clear what is going to happen regarding 2014 budgets, that have already been submitted to the Commission before October 15. Any real growth-enhancing decision is still far from being operationalized.

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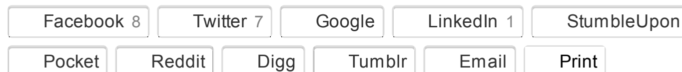

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Social Model, are merely the anticipation of a reality that is the outcome of a political choice, based on a set of economic prescriptions and which takes for granted the impossibility of attaining true political union.

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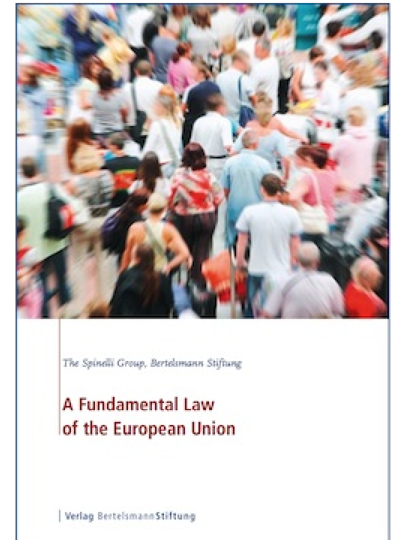

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