Juncker’s false hope: a public investment plan without public investment

Martin Myant of the ETUI *argues that the European ‘investment plan’ unveiled in late November by Jean-Claude Juncker falls far short of what is needed to get Europe growing again.*

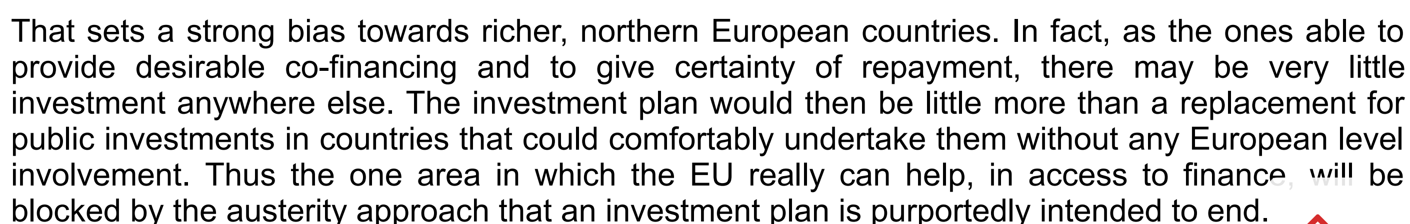
Jean-Claude Juncker finally announced his long-awaited proposal for an investment plan on 26 November. It was billed as the central plank in his determined effort to spend five years saving Europe. It starts off quite well but then fizzles out as it becomes clear that it is very unlikely to happen on anything like the envisaged scale. Even if achieved, it would be inadequate in scale and probably of most help to those parts of Europe that need it the least.

A proposal for a credible European investment plan needs to answer a number of questions. It needs to explain why investment is necessary, why it should be led from the European level, how it will be run, what it will target in terms of activities, where it will be directed, how projects will be chosen and how it will be subject to scrutiny and control.

Accompanying documents set out a very convincing case for raising the level of investment. It fell by 15% between 2007 and 2013 and even further in 2014. Juncker’s plan would cover about one fifth of that gap. The decline has been particularly severe in a number of countries that have been hit hardest by the crisis. Investment is needed both to provide an immediate stimulus to demand and because of the long-term need for infrastructure, facilities for education, training and research, energy transformation and social services. These are largely typical public sector activities and the public sector should be expected to lead the investment. Despite early rhetoric emphasing the private sector only, this now seems to have been recognised. Indeed, the main barrier to private sector investment has been lack of demand, a point confirmed in the European Commission`s Business Surveys so the private sector has less need of a special programme of this kind.

The justification for an EU-level programme is less clearly set out. There is a need for some all-European projects, but the main argument for a European plan – rather than just increased public investment by member state governments – is that the EU as a whole has financial credibility and can raise funds at low rates of interest while a number of individual countries cannot. So it is access to finance that matters and on this the Juncker plan drifts into evasion and wishful thinking. The proposal appears to be that a fund will be set up, attracting private finance after the EU and EIB have committed relatively small sums – € euro 21 bn in total – and after member states have been quietly persuaded to contribute too. Thus the plan will be limited from the start by the reluctance by public bodies to increase spending or countenance further debt. In fact, if the plan proceeds public debt will increase as much of the investment will be in public sector projects and governments will have to repay that debt at some future date.

The problem here is that a public sector investment programme cannot function without commitment of public resources. Reluctance to do so creates a further bias. Calculations of a total € 315 bn level of investment are based on assumptions of a leverage ratio that would be conceivable only for the safest of investments. Indeed, it was calculated on exactly that basis and there is an acknowledged trade-off between volume of investment and level of perceived risk.



That sets a strong bias towards richer, northern European countries. In fact, as the ones able to provide desirable co-financing and to give certainty of repayment, there may be very little investment anywhere else. The investment plan would then be little more than a replacement for public investments in countries that could comfortably undertake them without any European level involvement. Thus the one area in which the EU really can help, in access to finance, will be blocked by the austerity approach that an investment plan is purportedly intended to end.

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The administration and governance of the plan leave several open questions. Other proposals have favoured increased lending from the EIB. That has clearly been ruled out this time. It would require increasing the EIB's capital which has always in the past required a proportionate input from each member state. There will evidently be no such public request this time. The EIB has also been cautious in lending to projects with less than the highest risk rating. An increase of its capital by € 10bn, decided on in 2012, was billed as leading to an increase in lending of € 60bn. The actual increase was about one third of that with further projects judged too risky.

The EIB has made commitments in the past to fund projects in countries in the greatest difficulty and has achieved some very limited success. Newly-committed investment to the four programme countries in 2013 (Greece, Ireland, Portugal and Cyprus), which accounted for 4.2% of EU GDP, was 5.3% of the total . So there was some bias, but it was small. The EIB has also consistently invested heavily in projects in countries in the least difficulty which do not obviously need European-level support. This time, the EIB will provide input on project appraisal and decisions, but will not be asked to carry the risks if investment projects fail.

Instead, the supreme decision-making body will be a task force bringing together the European commission and the EIB. This time, unlike the previous EIB initiatives, there is to be no explicit bias towards particular countries. However, although means of direct public control are still obscure, there would seem to be every prospect that every investment decision will be subject watched with interest and provoke public debate.

The fundamental problem for the investment plan as currently proposed is that it is expected to emerge without a serious public financial commitment. It is assumed that it can function without disrupting the existing austerity policy. There are some concessions, such as an indication that contributions to the fund or to co-financing of individual projects will be viewed favourably when assessing achievement of the criteria for the Eurozone, the 3% of GDP budget deficit and the 60% of GDP debt limit. It would all run so much better if austerity were replaced by a recognition that only by restoring growth in demand can overall growth be restored and debt levels reduced. That requires recognising that an investment plan cannot be superimposed on a policy framework that denies scope for public spending and public borrowing.

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