

INVESTMENT IN EUROPE: MAKING THE BEST OF THE JUNKER PLAN

Extract from:

Eulalia Rubio, David Rinaldi, Thomas Pellerin-Carlin,
"Investment en Europe: Making the best of the Juncker Plan",
Studies & Reports No. 110, Jacques Delors Institute, March 2016.

FOREWORD BY ENRICO LETTA

The sudden lack of investments in Europe is one of the keys to understanding the severity of the economic and financial crisis which has been whipping up a great tempest in Europe since 2008. In many Member States, the significant drop in investments was either a consequence or a cause of the crisis. It is a consequence as the lack of public money forced many governments to maintain running expenses to the detriment of long-term investments. At the same time, the drop in investments can be deemed a cause as it made any strong recovery impossible at a time when, in 2015, macroeconomic conditions had improved. Zero percent interest rates, strong dollar and low oil prices should have driven recovery, yet the drop in investments has been an obstacle to this major opportunity presented to us by these favourable macroeconomic conditions.

Against this backdrop, many questions remain without clear answers with regard to what the media is calling the "Juncker Plan". Is this investment plan able to get Europeans out of the economic rut they have become stuck in? Is it the major offensive in favour of investment that President Juncker promised to the European Parliament upon his election, or is it, in more mundane terms, merely a communication tool? What actual results can be expected? Which solutions can be implemented to get the most out of the Juncker Plan?

These questions have somewhat fallen off the radar of European and national institutions and media. The impact of the announcement has now passed and political and media attention has moved onto other issues such as Brexit and the refugee crisis. This report by the Jacques Delors Institute follows up on the Juncker Plan to analyse its content, functioning, the main risks of its implementation and its potential long-term impact. In this report, Eulalia Rubio, David Rinaldi and Thomas Pellerin-Carlin put forward clear recommendations to improve the Plan and conduct an in-depth examination of its potential in two major areas: digital infrastructure and energy efficiency.

Upon reading this report, I would note a few lessons that are of the utmost importance for the state of Europe today.

Firstly, the Juncker Plan is not a miracle cure. Alone, it cannot make up the investment deficit from which Europe is suffering. The resources allocated to this Plan remain very low, too low in fact given the stakes at play. Using these scant resources, the Plan intends to mobilise slightly more than €100 billion per year. Even if it were to reach its goal, it would only significantly yet insufficiently reduce an investment deficit in Europe estimated at roughly €200-300 million per year. In other words, **the Juncker Plan is 'too little too late' to remedy investment and employment issues in Europe.** By means of comparison, the American Recovery and Reinvestment Act adopted by the Obama administration in 2009 injected more than \$800 billion into the US economy between 2009 and 2013.

Who is to blame for this? The low amounts allocated to the Plan are clearly linked to the desires of some European Union Member States. The Juncker Plan is a reflection of certain Member States' reluctance to invest considerable resources to boost investment. This is not a first for Europe. In 1993, Jacques Delors, then President of the European Commission, proposed in his White Paper on growth, competitiveness and employment a major investment plan financed by a large-scale European loan. Adopted by heads of state and government leaders, it was never applied. More recently, the heads of state and government of the EU Member States adopted a Compact for Growth and Jobs in 2012. Following talks, this Compact was of a modest scale (approximately €120 billion) and for the most part based on the use of existing funds. It thereby acted more as a political communication tool than as a real investment plan.

The small size of the Juncker Plan is therefore the result of decisions made by European Union Member States. It is once again likely that these decisions were guided by an excessively narrow and short-term vision of national interests.

Despite its modest scale, the adoption of the Juncker Plan is a small victory in itself. It reflects the change in paradigm that is underway within European institutions: today, it is no longer contested that there is an investment problem in Europe, affecting all countries and not simply some Member States. Today,

there is consensus that the solution to this lack of investment requires, at least partially, action on a European scale. Today, it is clear that the economic strategy rolled out by the EU and Member States alike was a “fiscal consolidation” strategy, too focused on more or less unsuccessful attempts to reduce public spending in the short term.

Going beyond the question of its allocated amounts, the Juncker Plan presents some interesting new options. It is the most ambitious initiative currently proposed to use the EU’s budget as a guarantee with a view to mobilising private financing. Unlike previous investment initiatives in the EU (such as the 2013 decision to increase the capital of the European Investment Bank (EIB)), the Plan also aims to remove some regulatory obstacles to investment (which, in some sectors, constitute the main disincentive to both public and private investment). It pays special attention to efficiency, and not only to the volume of investments, by supporting the preparation and financial package of projects. It encourages the participation of National Development Banks (NDBs), thereby proposing a common and integrated solution to investment challenges in Europe.

While it is still too early to tell what impact the Juncker Plan will have in terms of investment and employment, the preliminary results and lessons learned from similar experiences in the past can give us a few indications. There is a significant risk that the European Fund for Strategic Investments (EFSI) will finance projects that are not very additional, with the sole aim of reaching its target amount (€315 billion mobilised). In other words, European public money would be used to finance projects that could very well have been financed by national public funds or private capital. It is therefore highly likely that the EFSI would be disproportionately beneficial to the most developed areas, which are also those with the least need for investments supported by the European public powers. Cooperation with National Development Banks is a crucial condition for the Plan’s success, yet, if it is not well organised, the EFSI could support projects that should have been financed by the National Development Bank, the EIB or existing European funds. Furthermore, it is uncertain whether the Juncker Plan will remove a considerable number of regulatory obstacles to investment, starting with the non-application of European legislation in some Member States.

The Juncker Plan does not, however, seem to have yet completely endorsed a crucial paradigm shift on the role of public authorities in stimulating useful investment. The often subconscious prejudice that there is a predetermined stock of good investments must be left behind. This static approach does not take into account the dynamic reality. A good investment project does not exist in a vacuum; it is instead built up by men and women who combine local knowledge, relevant economic analysis, an adequate regulatory framework and appropriate financing solutions. To put it simply, **public authorities must contribute to the creation of good investment projects**. While the Juncker Plan has started to embrace this reality, for instance by creating a new European Investment Advisory Hub (EIAH), the amounts allocated to the EIAH seem insufficient to cover all the tasks entrusted to it.

This report by the Jacques Delors Institute includes a set of recommendations with regard to the Juncker Plan in general, as well as on specific cases concerning the financing of digital infrastructure and energy efficiency. These recommendations aim to get the most out of the Juncker Plan, in order to help it to reach its targets in terms of investments, job creation and support of the European Union's political objectives.

The two case studies also provide a precious overview. In terms of both energy efficiency and digital infrastructure, the main cause of the lack of investment is the unfavourable, fragmented or uncertain regulatory framework. This reinforces the conviction that the third pillar of the Plan is the one that is supposed to have the strongest impact on investment. The case studies also highlight that EFSI funding, in relation to other sources of financing in the EU, may play a key role in supporting small-scale projects for the future. If it is used strategically, it can help to step up the digital, environmental and energy transition, so that the EU can be ready to face future challenges.

Probably one of the most interesting aspects of the Juncker Plan is its long-term scope. If it is ultimately successful, it could, in the long term, give rise to a welcome change in the EIB's practices, currently too reluctant to finance high-risk projects out of fear of losing its triple-A rating. The Juncker Plan could also lead to more solid and institutionalised forms of cooperation between the EIB and National Development Banks. It could also be used as an embryo

for a future stabilisation mechanism for the Euro area, as stated in the Five Presidents' Report.

The Juncker Plan's intuition has been very good and for this reason any failure of the plan would be fatal. We are on a knife's edge. It must succeed. At all costs.

Enrico Letta
*Vice-president of the Jacques Delors Institute,
Dean of the School of International Affairs at Sciences Po Paris (PSIA),
former Italian Prime Minister*