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The Juncker Plan: Failing to address the investment gap

Background

The Juncker Plan to boost investment in the EU has been advertised as the European Commission flagship project. Closing the investment gap might be a matter of survival for the EU, as the euro zone remains in deflation despite accommodative monetary policy and the migration crisis underscores the need for huge public investments into housing, schooling etc. This has already spurred a debate on more flexibility of the Stability and Growth Pact. However, the repeated call from trade unions and economists for a true public investment plan, boosting aggregate demand (with a high self-financing effect in liquidity constrained economies) and crowding-in additional investments, has been largely ignored. Instead, the EU-Commission and other actors use the European Fund on Strategic Investment (EFSI) as a fig leaf to hide their inactivity. The repeated claim that EFSI would not be a substitute for a public investment plan has been proven wrong, as the EU-Commission and even the Social Democrats in the German Parliament have advertised the idea to use the EFSI as the foundation of a Euro area fiscal capacity, as envisioned in the Five-President-Report. (This would entail granting access to public guarantees for private investors in Member States that conduct enough "structural reforms", i.e. hamper private demand via labour market reforms and cuts in pensions and wages.) Hence, it is high time to review the performance of the EFSI so far.

GUE/NGL has published a discussion paper on the EFSI and the need for a true public investment plan here http://www.fabio-de-masi.de/kontext/controllers/document.php/53.5/0/38e27c.pdf

EFSI - State of play based on the BUDG-ECON hearing with EU-Commissioner Katainen on 15 December 2015 (Strasbourg) and the Commission's publication on the EFSI state of play on 15 January 2016.

Our main criticism towards EFSI has been validated so far:

- EFSI fails to address the investment gap meaningfully - this would require a true public investment plan to boost aggregate demand;
- EFSI increases the risk to privatize profits and socialize losses in a focus on public private partnerships (PPP), which are usually not cost-effective from a public finance perspective, as taxpayers have to co-finance private returns on investments that would otherwise accrue to the public budget and refinancing tends to be more expensive for private than public investors;
- EFSI is based on an opaque governance structure leading to low transparency and accountability;
- There is a lack of accessibility and information with respect to EFSI, in particular in some Member States, e.g. Ireland. The planned national pipelines or hubs have not appeared yet or, if they do exist, they are certainly not public knowledge.

In the ECB's opinion, the Commission's investment plan *"may fall short of providing a decisive contribution to reinvigorating investment"* (according to the minutes of the ECB governing council from October 2015). Confronted with this statement, Vice-President Katainen stated that the EFSI cannot address the investment gap fully. This would have to be achieved by structural reforms and an investment-friendly climate.

By January 2016,

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- EIB has supported 42 projects in 15 Member States with guarantees of 5.7bn euros, expecting to yield total investment of 25bn euros (even though EFSI governance structures such as the investment committee had not yet been fully set up);
- EIF is funding 70 000 SMEs through 84 agreements with national/regional banks in 17 Member States with guarantees of 1.8bn euros, expecting to yield total investment of 25bn euros;
- This translates into a leverage factor of 6.67 (as opposed to 15, as advertised);
- The chairperson of the steering board has resigned and has been replaced (a fact about which the EP had not been informed).

During the hearing on 15 December, Katainen admitted several problems with the condition of "additionally" as laid out in the regulation, but he did not go into detail. (If already planned investment is simply financed via EFSI etc. there is no net effect on investment but simply investors taking advantage of the public guarantee. This means effectively crowding out public investment).

Furthermore, Katainen refused to provide details on a controversial financing decision by EIB, which granted EUR 125m (EUR 50m using EFSI guarantees) to Spanish Company Abengoa (for biotech research), which started an insolvency proceeding shortly after receiving the funds. He could not explain whether such a fraudulent practice would be covered by EFSI/taxpayers (e.g. via EFSI share in profits from profitable projects) and this has originated a dispute on who deals with the first losses between national promotional banks and EIB, showing the lack of consistency of this fund when it has to face losses.

Katainen points out as good examples the cases of some regions in Spain and Malta, where the EFSI has been combined with the structural funds for some projects. He said that this practice should be spread, even if it implies the use of private investment for the objectives of public cohesion policy.

During a visit to Singapore, Commissioner Katainen tried to promote the EFSI to international investors, also within EU-China negotiations. Chinese investor said, according to the information provided by Katainen, that they are already investing in European infrastructure (putting "additionally" into question, once more) and that their investment will be redirected through EFSI projects. So, through the EFSI we are using EU budget resources to reduce the risk for foreign private investors.

Katainen praised particular funding of PPP projects in the basic health care sector (Ireland). In the UK, EFSI supports the Midland Metropolitan Hospital, a PPP to construct a new teaching hospital. This project was planned anyways, as part of wider reorganization to health and social care, and attracted particular criticism due to employment conditions etc.

So far, not a single project has been financed in Greece. Katainen gave no comments on the geographical distribution of funding which had been high on the European Parliament's agenda and formally anchored with a scoreboard (targeting peripheral countries where companies are liquidity constrained and multiplier effects from investments are therefore presumably higher). The only reference to geographical distribution was the good role that regional platforms are playing in the implementation of projects, especially in the case of France and Germany. This confirms the deepening of the gap between the economically most advantaged areas and those with more difficulties that EFSI is contributing to.

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