

What Europe needs: A true public investment plan

An Alternative to the Juncker Plan/EFSI (European Fund for Strategic Investment)

GUE/NGL Discussion Paper

Austerity has killed investment and hence to revive investment austerity has to be ended. The failed euro policies of internal devaluation via wage restraint, pension and welfare cuts, increases in taxation of consumption and fiscal retrenchment alongside the current macroeconomic governance with the Stability and Growth Pact and the Fiscal Compact have not only destroyed the social fabric across the EU but are the recipe for an economic disaster. The euro zone performs particularly weak in terms of growth by international comparison.

The annual investment gap (public and private) in the EU is estimated by the EU Commission to figure around 400bn Euros a year or 3 per cent of EU GDP. This represents a drop of investment of 15 per cent for the EU and up to 60 per cent in countries such as Greece since the crisis.

If investment and GDP would have continued to grow around the pre-crisis trend – without the devastating effects of austerity – the capital stock would be higher necessitating more replacement investment. The true investment gap would hence be around 640bn - widening every lost year.

Against this background GUE/NGL rejects the so called Juncker Plan and calls for a meaningful public investment plan:

- EU member states needs a meaningful public investment program of between 250bn and 600bn euros (2 to 5 per cent of EU GDP) annually over ten years or until official unemployment has dropped below 1 per cent.

- Public Investment will also lead to more private investment as state expenditure also creates income for the private economy and stabilizes business expectations. One euro of public investment is commonly expected to create at least 1.60 euro of additional income – especially in peripheral economies with liquidity constrained banks, firms and enterprises.
- Such a public investment program - which will create income for the working people, the unemployed and enterprises - is required to address the chronic investment gap in the EU, stop capital depletion, overcome depression and provide the youth with a right to their future.
- A true public investment program should be coordinated among European Parliament, EU member states, national parliaments and stakeholders from civil society (Advisory Committee) to tackle economic and social imbalances, prevent cronyism while preserving the advantages of decentralised investment which is often better targeted.
- Even within the existing legal framework, such a program could be financed through the European Investment Bank (EIB) or national promotional banks recycling ample liquidity on financial markets into the real economy. EIB bonds do not count towards the public debt and deficit rules of the Stability and Growth Pact (SGP). One off measures to capitalize national promotional banks are also possible within the constraints of the SGP.
- EIB bonds would most likely continue to enjoy triple-A ratings as required by EIB since financial markets lack safe investment opportunities and banks in peripheral member states need high quality collateral to pledge with European Central Bank (ECB) in monetary operations. However, for prudential reasons ECB could guarantee or buy bonds issued by EIB and national promotional banks of the euro zone.

- Additionally, the SGP must be terminated as there is no international evidence of so-called “debt brakes” leading to lower public debt to GDP ratios than more discretionary policies to flatten the business cycle. In the short-run public investment should at least be fully exempt from the SGP as investment creates assets and future income streams.
- EU member states should engage in a public and transparent macroeconomic dialogue. Such macroeconomic coordination should rather focus on total debt of all sectors (public, private, corporate) while addressing current account imbalances symmetrically as net foreign debt and public debt in the biggest internal market of the world – the EU – are expressions of chronic surplus economies such as Germany or high private sector savings and thus lack of private demand.
- In a climate of historically low interest rates, it is almost criminal to not use the financing capacity of member states with fiscal scope such as Germany to directly fund additional investment and boost internal demand. Even if debt-financed, public investment programs have large self-financing effects via higher economic activity, employment and hence public revenue.
- Debt-finance should be no substitute for tax justice or merely compensate for a chronic lack of private demand due to an unequal distribution of income and wealth. However, as public investment creates assets for future generations, debt finance is fully collateralized and economically justified as future generations share the benefits and costs.
- Additionally, direct central bank credit would help states to maintain financing conditions independently of capital markets, not only ensuring democratically accountable public investment decisions, but also improving the transmission channel of monetary policy. This is preferable to quantitative

easing which pumps ever more liquidity into banks and inflates asset values to the benefit of speculators and wealth owners with no guarantee to boost credit to the real economy.

The financing needs for a public investment plan could be equally addressed through the taxation of wealth, capital and high-income labour, the fight against tax havens or other instruments such as an ambitious financial transaction tax. According to Credit Suisse, the net wealth of European millionaires amounts to 17trn euros, compared to about 12trn euros of sovereign debt of all 28 EU member states.

- Lastly, an investment program should be complemented by a public-led industrial policy at the level of EU member states while coordinated at EU level to avoid mismatches and beggar thy neighbour policies.

EFSI - candy for big finance

- The Plan's meagre scope, even if the targeted investment volume of EUR 315bn is reached (at best 0,8 per cent of EU GDP over three years), will fail to kick-start the EU economy
- There is not fresh public money for investment; instead, the EU contributions to the EFSI guarantee fund will be taken (partially) from existing programs (CEF and Horizon 2020), which have a leverage factor similar to the one envisaged for EFSI or even higher if the programs were to be spent directly into the economy.
- Despite ultra-low interest rates, private investment will not come forth as long as austerity depresses demand and hence locks-in negative expectation of investors. Only public investment can break the investment strike and is economically

reasonable given excess liquidity on financial markets and low interest rates.

- The plan features public-private partnerships, which are almost always more expensive for taxpayers than direct public investment, since taxpayers have to satisfy private returns on investment. The concept is the socialisation of (potential) losses and the privatization of profits. It incentivises member states to privatise public infrastructure to circumvent the SGP. EFSI is a candy to big finance, insurers and pension funds which lack adequate returns in the real economy due to austerity. The fatal privatization of pension systems and the austerity inflicted lack of investment and hence credit demand should be no excuse to satisfy yield via taxpayers' money.
- Project selection will be depoliticised and made by so-called experts (always open to industry "advice" and vested interests) mainly based on private profitability. Most of the resources can be expected to flow to the safe havens in the so-called "core" and to large-scale projects to the benefit of big corporations.
- In particular, the plan increases the competences of the EIB (partly at the expense of parliament, whose budgetary means are reduced) without proper democratic control; EFSI was planned by Commission (COM) and Council (CL) as EIB-Plus, to circumvent the limit on EIB special operations
- It does nothing to tackle structural problems such as current account imbalances (e.g. Germany's aggressive cost dumping and lack of domestic stimulus), redistribution from labour and the welfare state to capital owners, systematic tax fraud plundering public pockets and the oligarchic control of the economy

*For further background information on GUE/NGLs analysis of the Investment gap and the Juncker Plan consult the older background paper "**Juncker-Voodoo: the EFSI will not revive the economy**" by MEPs and members of EPs committee on Economic and Monetary affairs Fabio De Masi (DIE LINKE, Germany), Paloma Lopez (Izquierda Plural, Spain) and Miguel Viegas (Partido Comunista Portugues, Portugal). The paper is available in English, French, Spanish and German and can be retrieved here

<http://www.fabio-de-masi.de/de/article/373.juncker-vooodoo-warum-der-investitionsplan-fuer-europa-die-wirtschaft-nicht-beleben-wird.html>