Hartmut Marhold*

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The Juncker-Plan - a New Paradigm?

Europe needs investment. To come out of the crisis, Europe needs not only sound public finances – Europe needs economic growth, too. Growth provides the basis for both jobs and taxes income (i.e. sound budgets) alike. And growth will not return to Europe without a huge wave of investment. That is what the Juncker-Plan is all about: mobilising 315 billion € for investment in Europe, over the next three years, in order to initiate long term economic growth, thereby reducing unemployment and creating the conditions for taxes being paid. The growth rates, for 2015, will be around zero. In some states of the Eurozone, the unemployment rate has reached in some states more than a quarter of the population (and more than the half of the youth), and the investment rate is 15% below what it was before the crisis, in 2007. The financial markets and the "sovereign" debt crisis may be more or less under control (though not solved), but the real economy is certainly a huge concern.

A second attempt to make the economy work. Juncker's plan is the second attempt, since the beginning of the crisis, to make the economy work – the first one, launched in 2008, shortly after the outbreak of the crisis, intended to avoid the worst, to prevent a general melt-down of the European economy, to reduce the intensity of the unavoidable recession in the wake of the financial crisis. This first strategic move was triggered by panic, and most of the member states of the EU invested more money than they had – in fact, all of them broke the rule of limiting public debt to a maximum 60% of the GDP. Some got out of the mess, more or less successfully (Germany), due to their international competitiveness, others did not (Greece) – their debt has not only failed to shrink since then, but has engulfed them into an ever less sustainable budgetary disaster. Whatever the case, no European member state can afford such an approach for a second time.

"Leverage" is the key. But what can be done, then, if the budgetary potential of the European nation states is exhausted and the economy does not pick up steam by itself? Jean-Claude Juncker claims to have the solution: Only 21 out of the 315 billion € should come from public budgets (European, this time, not national), whereas fifteen times this basic sum should come from private investors: "leverage" is the key. And this is the most interesting aspect of the new approach. Will it work? Why should private investors provide fifteen times the amount of the public share? How should it be implemented? What does it mean for the relationship between politics and the economy?

Will it work? Nobody knows, but there has been a precedent to such an approach, e.g. at the European Investment Bank, the bank of the European Union. The EIB reached an unprecedented 1:18 leverage ratio between its own (public) capital and private investment after the increase of its capital in 2013, and even a 1:20 ratio within the framework of a programme called COSME, aimed at facilitating investment for SME's. Certainly, this was on a smaller scale – but the proof that it is not completely illusionary has been delivered by the EU's own bank itself.

No risk, only fun. But why would private investors, by adding 15 € of their own to only 1 € of a public authority, be prepared to run into such a risk? Simply because there is no risk: The one and only public € is the guarantee that the risk for the given investment has been examined, evaluated, tested by the public authority providing the initial 1 €, and it is the public authority which ultimately takes on (what is no longer considered to be) the risk. It is then extremely attractive for private investors to put up their capital under the risk-free protection of a public authority.

Steering investment towards strategic fields ... "Public authority", in this case, means the European Commission and the European Investment Bank. But here's where the problem starts – which of the two will really decide, which project deserves investment and which does not? Whatever the case, the choice is crucial, anyway: The European Commission launched its plan on the 26 November 2014 (and the European Council endorsed it on the 18 December), but Juncker had already outlined the shape of the plan much earlier, i.e. on the 15 July, while he was still candidate for the presidency of the Commission and not yet elected: "The focus of this additional investment should be in the areas of infrastructure, notably broadband and energy networks, as well as transport infrastructure in industrial centres; education, research and innovation; and renewable energy and energy efficiency. A significant amount should be channelled towards projects that can help the younger generation back to work"[1] (repeated and confirmed in the document of 26 November). This is a political, a strategic vision of "steering" investment towards the real economy, towards profitable projects.[2]

... or attracting investment towards profitable projects? On the other hand, these projects need to be profitable, otherwise private investors would not come in, no matter how attractive risk-free investment may be. Profitability, however, is not a political criterion, nor is it a macroeconomic or a strategic one - but a business, a microeconomic criterion. The EIB made it clear that in their eyes projects should be selected on a non-political basis, by experts and expertise, putting profitability in the forefront, with no preconceived plan for privileged regions (e.g. European states which need more investment than others) or sectors (e.g. the "strategic" ones indicated by Juncker).

How is it possible to marry these fundamentally different criteria for the selection of projects? How does one decide whether a project gets funding and risk-sharing (under the umbrella of the public share in funds), when the interests in projects are based on different assumptions?

The European Fund for Strategic Investment (EFSI)
The whole 315 billion € should be channelled through a new fund, the "European Fund for Strategic Investment"[3], which will not be an in its own right, but a branch or department of the European Investment Bank. The EIB emerges as the central actor in this setting, and that is only logical: As a bank, the EIB is close to investment as private actors understand it; as a public institution, it is close to the political sphere and its "strategic" interests. But this central situation of the EFSI, within the institutional framework of the EIB, is the very focal point of a topical problem: There are heavy disputes surrounding the governance of the fund at present, which threaten to delay the launch of the investment itself, despite the efforts of Juncker to accelerate the preparation as much as possible: He wants the fund to be operational by end of June.

The EFSI governance structure: Who has the power over 315 billion €? The governance of the EFSI is based on a three level approach, starting at the top with a "Steering Board": It „will decide on the overall orientation, the investment guidelines, the risk profile, strategic policies and asset allocation of the Fund. As long as the EIB and the Commission are the only contributors to the EFSI, the number of members and votes will be allocated based on size of their contributions and all decisions will be taken by consensus."

What comes next is an „Investment Committee": It „will be accountable to the Steering Board. It will vet specific projects and decide which will receive EFSI support, without any geographic or sectorial quotas. The Committee will consist of six independent market experts and a Managing Director".

The crucial question is "how the EFSI governance structure will ensure independence from the public and private contributors? - The use of the guarantee fund for each individual investment decision will be validated by the Investment Committee consisting of independent professionals receiving a remuneration for their work in compliance with the investment guidelines. These independent experts shall have a high level of relevant market experience, inter alia in project finance, and be appointed by the Steering Board for a renewable fixed term of three years."[4]

In the eyes of the President of the European Investment Bank, the German (former high ranking – liberal – diplomat) Werner Hoyer, this provisional structure is still far from ruling out any conflict - on the contrary: He deplores the fact that there is a power struggle going on, aiming to gain control of the way in which future investment will be steered.

Is the Juncker-Plan a new paradigm in the relationship between politics and the economy? Juncker thinks so: "This is a Plan that will fundamentally change public policy and the financing tools underpinning investment in Europe [...] The Plan presented today is the first step in a new direction."[5] His arguments: The idea of the (see "leverage") Plan is not wholly new, but this time it is launched at an unprecedented level, and its political importance for the whole of Europe is immense. Never before has a political move aiming at economic growth been undertaken on this scale and with these methods. Juncker insists that it is totally different from the "European Investment Programme" of 2008: "This investment programme will not be a recovery plan of the kind that some Member States tried to introduce in the 1970s. Such recovery plans produce no more than a flash in the pan." If this can be seen as a refusal of any return to Keynesian policies, Juncker distances himself equally from the more neo-liberal policies based on the assumption that austerity is the key to healthy conditions for growing economies: "But I also want to urge some colleagues to abandon the idea that only harsh austerity and excessive cost-cutting will automatically revive the forces for growth and stimulate the labour market. By the same token, deficits and high levels of debt do not automatically produce growth."[6] This shows equal distance to Keynes and Friedman, to Keynesianism and Neoliberalism.

The new approach does not yet have a doctrinal basis or background. It is nevertheless innovative and deserves theoretical attention. Based on the political will to have a say in where the economy evolves, in steering investment towards strategic goals, in trusting in the capacity of politics to have an impact on markets, investment, growth and jobs – and not only by setting the general conditions, but by intervening and interfering in the markets – , the Juncker approach leaves on the other hand much room for private action, does not substitute the "state" (i.e. the European Union, in this case) for markets and actors on these markets, allows for freedom to invest or not in projects, which are certified to be both strategic and profitable alike.

In Juncker's mind, his approach should spread to the whole of public budgets – a far reaching perspective, and a courageous proposal, ahead of any experience with the current plan itself. A system of investment certification should evolve on the basis of the future experience of the EFSI, a "single-entry investment advisory ‚Hub'"[7] for sound investment should be established, and more and more public budgets, at the national and the European level, should be submitted to the "leverage"-rule: Politics would acquire the role of an engine, a driving force – neither a substitute for the whole train, nor simply laying down the rails and waiting for the trains to come …

*Hartmut Marhold is CIFE's Director of Research and Development.

References

1) http://ec.europa.eu/priorities/jobs-growth-investment/plan/-docs/an-investment-plan-for-europe_com _2014 _903_en.pdf (15.3.2015).
2) The English version of the programme says that plan is intended to "make the investment reach" the real economy, the German version is more explicit in theoretically relevant terms – it says that investment should be "steered" (or "channelled", "directed"); the German term is "Lenkung" and that is undoubtedly "Keynesian" speech.
3) ESFI, which adds one acronym more to the already very rich range of such things, since the outbreak of the crisis – who finds his way in the jungle of ESFS, EFSF, EFSM, ESM, etc. … and now ESFI?
4) All the three previous quotations from: European Commission: The European Fund for Strategic Investments (EFSI) Questions and Answers, http://ec.europa.eu/priorities/jobs-growth-investment/-plan/docs/efsi_qa_en.pdf (15.3.2015).
5) Communication from the Commission, Brussels, 26.11.2014 COM(2014) 903 final, http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/an-investment-plan-for-europe_com_2014_903 _en.pdf (15.3.2015).
6) Juncker's Speech at the European Parliament, 22 October 2014: Time for Action – Statement in the European Parliament plenary session ahead of the vote on the College; http://europa.eu/rapid/-press-release_SPEECH-14-1525_en.htm; the speech at YouTube: https://www.youtube.com/watch?v=XGiSrYwkm_0 (15.3.2015). He could have added that the European Recovery Plan of 2008 was still very much of the same kind …
7) See footnote 6.

Administration: Hartmut Marhold
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