politik für europa
2017 plus

More of this Could Do the Job

Make the Juncker Plan Effective and Sustainable

September 2015

Foreword

Europe has not yet overcome the economic crisis. In many countries incomes and wealth have fallen, and their distribution is more unequal than it was eight years ago. In the so-called crisis countries of the EU many people have simply lost hope: unemployment, especially among young people, persists at an intol-erable level and confidence in the future is low. This can also be seen from investment levels, which have collapsed by around 15 per cent (EU average) since 2007. Cuts in public budgets are progressively reducing the scope for productive investment stimuli. The most drastic declines in investment have occurred in the crisis countries: in Greece from 27 per cent of GDP in 2007 to 11 per cent in 2014; in Cyprus from 24 per cent to 12 per cent; in Ireland from 28 per cent to 17 per cent; in Spain from 31 per cent to 19 per cent; in Portugal from 23 per cent to 15 per cent; and in Italy from 22 per cent to 17 per cent.

European economies can return to a sustainable growth path only if they come up with a pan-European strategy centred on an ambitious European investment programme: additional investments – at least in the region of 2 per cent of GDP – instead of kamikaze austerity is the message. This would boost the economy and effect the necessary investments in the future, in green industries, education and infrastructure. This would create jobs and confidence in the future. Precisely this question is the focus of the Thirteenth ETUC Congress »for a fair society«: How can good jobs be created and workers' rights be strengthened?

Investment needs in the EU member states vary considerably. In this volume the chairs and general secre-taries of trade unions from different member states outline how they assess the situation and what in-vestment policies they expect in their countries. It was important for us in this context to take a broad regional view, even though all 28 countries could not be presented. Sweden therefore represents Scandi-navia, Bulgaria south-eastern Europe, the Czech Republic central Europe, Ireland and Germany the old western Europe and Greece and Spain southern Europe.

With this volume we, the DGB and the Friedrich-Ebert-Stiftung want to contribute to the debate on pro-ductive investment in Europe, giving it a more practical turn. Designate general secretary of the European Trade Union Confederation Luca Visentini starts the ball rolling by explaining Europe's investment needs from the ETUC's standpoint and presents a trade union-oriented evaluation of the Juncker Plan. The reso-lution adopted by all member federations of the ETUC for a European investment programme is attached as an appendix.

For us, the EU is the core of the solution and not part of the problem in Europe. We thus consider the increase in national egoisms in the context of attempts to manage the crisis as very much a step in the wrong direction. A much smarter policy approach is needed to bring home to people the benefits of Europe integration once again. A »Marshall Plan« for Europe is long overdue!

Reiner Hoffmann
President, German Trade Union Confederation (DGB)

Kurt Beck
President, Friedrich-Ebert-Stiftung (FES)

Contents

The Need For A European Investment Plan Remains

Luca Visentini (General Secretary designate, ETUC)

Recalling the Objectives of the ETUC's Investment Plan

When, after intense discussions, the ETUC launched its European Investment plan at the end of 2013, we had multiple objectives in mind.

First of all, by injecting a firm dose of aggregate demand, we wanted to revive the European economy. Europe, at that time, was still suffering from the aftermath of a double dip recession, unemployment was sky-rocketing and a strong spontaneous recovery was nowhere in sight.

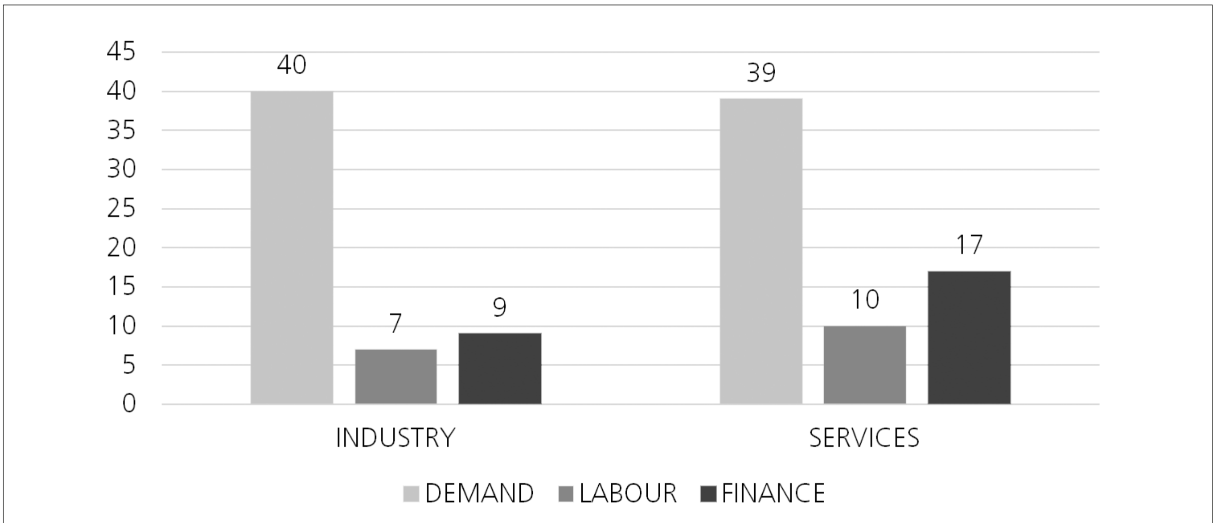
Moreover, the problem was clearly and overwhelmingly on the demand side. When questioned about the constraints on increasing production, over 40 per cent of companies identified a lack of customers as the main reason. In contrast, bottlenecks in terms of the availability of (skilled) labour were much more limited. Surprisingly for a period following a financial crisis, the availability of finance was not even mentioned as the most important bottleneck, at least not for the euro area overall.

We need to move away from the negative structural reform agenda that was promoted with such zeal.

At the same time, we wanted to get away from the negative »structural reform« agenda that was being promoted with such zeal by the European institutions and was being implemented de facto by an increasing number of national governments. Indeed, with several economies in recession for a number of years, governments were increasingly turning to policies that »deregulated« labour markets and weakened bargaining systems in an attempt to get out of the crisis by poaching demand and jobs from each other. However it was clearly not enough to say »no to austerity« and »no to deregulation«. To be credible, we also needed to put forward our own proposal: »Yes to European investment«.

However, our investment plan is not limited to providing a short-term boost to the economy alone. What we want is more than a flash in the pan. What we aim to pursue is a plan that generates a »double (or even a multiple) dividend«. Certainly, we want such a rapid relaunch of the European economy but we also want to prepare the economy for the longer term, for the future. Investment is the way to do so because it involves both a short-term demand

Figure 1: Percentage of Companies Constrained to Increase Production Because of Lack of Demand, Labour, Finance (Q2 2014 Data)



Source: Commission, DG ECFIN.

injection and the opportunity to strengthen the structural capacity of our economies as well as to address long-term challenges. In particular, we want a major investment initiative that pushes forward the »greening« of the economy and the transition to a »low carbon economy« by investing in, among other things, energy savings, sustainable energy and clean technologies, while at the same time boosting innovation and human capital, including quality education and training.

Another important structural objective was to rebalance the economy of the euro area. While it is a good thing that the single currency has survived the euro crisis, it cannot be denied that the 19 member states that share the single currency show rather divergent structural characteristics. Whereas several member states function as the industrial powerhouse of Europe, with others being connected to that powerhouse in their capacity as parts of the supply chain, other economies are not in such a position and have suffered much more from the low wage cost competition from emerging economies. Thus far, the policy approach to this problem of structural divergence has been to impose internal devaluation, under the motto »if we can't devalue the currency, let's devalue wages instead«. That approach is not working. It is leading to deflation, a wage race to the bottom and a lot of social misery without addressing the real problem, which is the lack of »structural« competitiveness: the lack of innovation that leaves weaker euro area economies so vulnerable to low wage competition from emerging economies. A European investment plan would allow the euro area to rebalance in a structural and sustainable way, not by cutting working and living standards but by pushing these economies higher up on the value added ladder.

A European Investment Plan needs to allow the Euro area to rebalance in a sustainable way, not by cutting standards.

Last but not least, our investment proposal also intended to restore some of the confidence of workers in the project of European integration. Indeed, the appearance of the »troika« and its IMF-type intrusions into social systems has shaken the belief and trust of many workers in the benefits of European integration. The ETUC wanted to show that Europe could and should present a »positive« face; that Europe should not be about taking away workers' rights and social security but about member states working together to jointly defend and promote a social dimension in a globalising economy. With the European elections to take place in spring 2014, such a positive message was thought to be of high importance.

The Investment Plan of the Commission: an »Investment« Plan or an »Insurance« Plan?

The idea that Europe should implement a major investment plan continued to gather support in the European policy discussions. A breakthrough took place in July 2014 when Jean Claude Juncker, in his capacity as candidate for president of the European Commission, made a commitment in his speech before the European Parliament to deliver such an investment plan. At the end of the same year, and after intense discussions with those member states that were unwilling to fund any European investment, the Commission presented a plan worth 315 billion euros for the next three years.

We would like to think that this initiative was also partially the result of the pressure we, as trade unions and together with other stakeholders, have put on the EU institutions and member states, to convince them that a European investment plan is needed. But at the same time we cannot ignore the level of criticism raised by the Junker plan.

In fact, while the Commission's plan does not compare so well with the ETUC's proposal of investing 2 per cent of GDP *each year* for the next ten years (the ETUC's proposal would thus amount to a grand total of about 2.6 trillion euros), the other – and more important – criticism concerns the way in which the Commission's investment plan is being set up. Indeed, because some member states have blocked the idea of mobilising private sector savings across Europe and turning these savings into a straightforward investment plan with public sector initiative taking the lead, the Commission resorted to developing a rather peculiar approach.

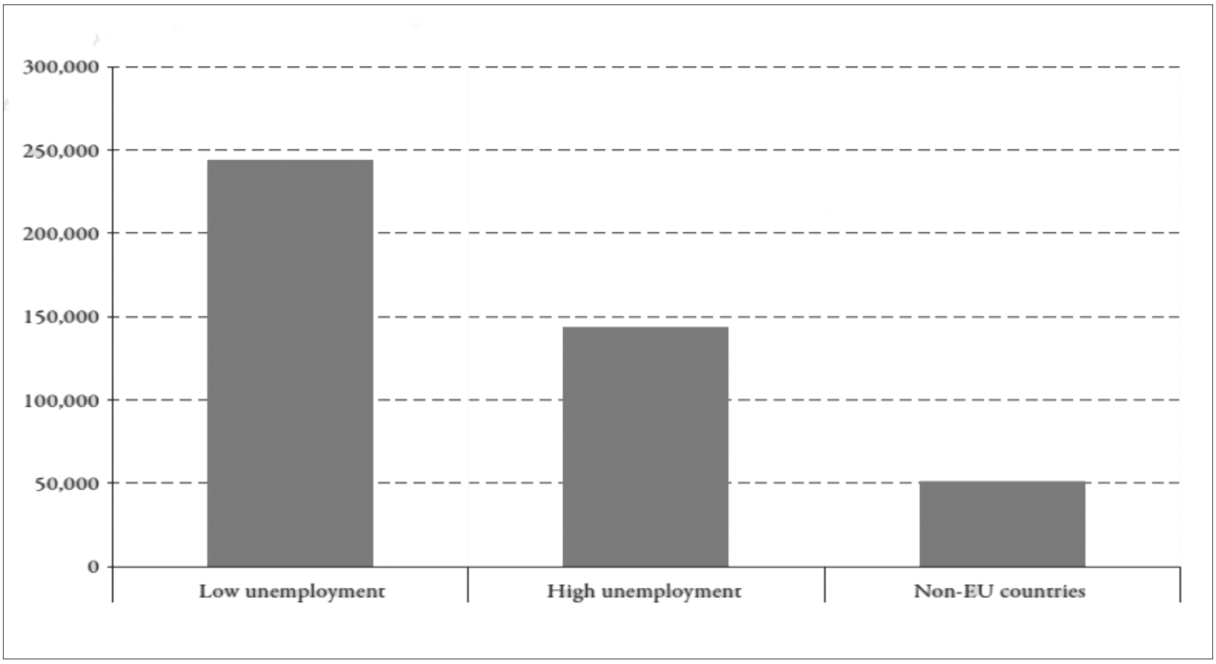
Austerity policies have destroyed demand perspectives but the Commission claims that »uncertainty« is holding back investment.

First, the Commission started with its own narrative of why investment (private investment in particular) had fallen compared with the level before the crisis. Unable to admit openly that the »austerity« it advocates itself had destroyed the prospect of demand that is most likely to encourage companies to invest, the Commission is now holding up the story that a general feeling of »uncertainty« is holding back investment in Europe. To this, the Commission adds that so-called »monoliners« such as American International Group, which insured against losses on major infrastructure projects, had gone down in the financial crisis. Lacking insurance against uncertain risks, investors hesitate to commit themselves to such projects again.

This, then, provides the basis for the Commission's plan, a plan which turns out to revolve more around a logic of »insurance« than to constitute an »investment« initiative. It starts by taking the relatively small amount of 16 billion euros from the European budget and topping this up with 5 billion from the EIB. This 21 billion will then function as a financial reserve to insure against potential losses on the project. Member states and their development banks (such as Kreditanstalt für Wiederafbau in Germany or Cassa Depositi e Prestiti in Italy, for example) are then expected to contribute a 60 billion capital base, thereby attracting private sector capital contributions for concrete investment projects in infrastructure, networks and SME loans to the tune of 255 billion euros. This therefore delivers the grand total of 315 billion euros. In other words, what the Commission is trying to do is to revive the »magic« of financial leverage, the same »magic« that was used in the boom years before the financial crisis by the banks and their shadow banks to incur debt in order to build bloated balance sheets and realise huge profits from small financial margins.

From the start, the Commission's investment initiative met with problems. The Commission was proclaiming that it was ready to ease the interpretation of the Stability and Growth Pact so that member states could make capital contributions available to the European Fund for Strategic Investment. However, it quickly became apparent that not a single member state was willing to increase its own debt position to fund an institution from which it was not sure that it would be able to obtain investment projects that would primarily benefit its own economy. A similar reluctance to contribute to the 60 billion euro capital of the investment fund could be observed on the part of private investors who were also demanding they themselves should decide on which project and which country the capital would go to. The Commission, therefore, was soon obliged to twist the plan by giving the European Investment Bank the mission of putting the 60 billion euros of capital into

Figure 2: Distribution of EIB Funding in the EU-28, 2007–2013 (Millions of Euros)



Note: »Low unemployment« refers to EU countries whose unemployment rates over the period 2007–2013 were below the EU-28 average. Conversely, »High unemployment« refers to EU countries with above the average unemployment rates in the period 2007–2013. »Non-EU countries« refers to EIB partner countries outside the European Union. Source: ILO Research Department based on European Investment Bank.

the investment fund as a basis for further – mainly private – investment. However, whether the 60 billion will be leveraged up by 255 billion of additional finance to reach the 315 billion euros of total investment remains to be seen.

Problems and Shortcomings of the Commission Investment Initiative

The way the Commission's plan is set up raises a number of additional issues. One such issue is the potential country bias that may appear with regard to the investment projects. The concern is that investment projects will go mainly to member states whose economy is doing relatively better, whereas the economies and areas that are distressed and are in greatest need of an investment boost would benefit the least. A related concern is that the Commission's investment plan, instead of rebalancing Europe and making euro-area economies converge with one another, would cause more, not less, divergence by making the stronger economies even stronger, while not doing enough to support weaker member states.

Investment projects may go mainly to member states where the economy is doing better.

These concerns arise because of the design of the Commission's plan. First, as has become clear from our description, the EIB is playing a key role by providing the 60 billion euros of start-up capital. The EIB, however, wants to retain its triple A rating on financial markets and thus tends to allocate investment projects to economies with a relatively lower risk profile; in other words, to economies that *already* enjoy relatively better growth. A study by the ILO documents this and finds that, over the 2007–2013 period, the EIB was allocating twice as much investment to low unemployment countries as elsewhere (see graph).

A second reason for this potential country bias is the »flexibilisation« of the Stability Pact itself. Member states that are not in an »excessive deficit« procedure can indeed find some margin for investment, as long as they do not move back over the 3 per cent deficit threshold. In contrast, member states with a deficit higher than 3 per cent cannot do so. Practically, this means that countries such as Germany, Austria or Luxembourg can indeed step into the European Fund for Strategic Investment (EFSI) and offer co-finance for projects in which they have a close interest, whereas countries such as France and Spain cannot do so (Italy is something of a case in between, because the radical »austerity« applied by the Monti government has brought the deficit a little under 3 per cent). This results in the strange situation in which the member states in the worst situation and most in need of investment are not obtaining it.

Another factor providing for this country bias is the role of public sector development banks, which have associated themselves with the EFSI and are drawing upon its finance to launch concrete investment projects. Such development banks are not operational in all member states, however. Germany has KfW and France and Italy have their own development banks, but Spain and Portugal, for example, have not developed such a financial structure for the economy.

Besides this potential country bias, other concerns can be raised. One is the question of whether the investment realised this way will really be »additional« or whether investors will simply move projects they had the intention of realising anyway into the EFSI structure in order to profit from the insurance against first losses that the EFSI provides. In the latter case, the EFSI will work »on paper« and achieve the investment amounts projected, but its additional impact on jobs and the economy will not be substantial because this is mainly investment that would have happened anyway.

The EFSI may well turn out to be a vehicle for privatisation.

A second question mark is linked to the major uncertainty regarding the fact that the plan could increase opportunities for investment in favour of SMEs and sectors of high public and social interest, but with low return in terms of private profits. Examples include education and training, social services and health care, as well as research and innovation, in particular in the green economy.

Last but not least, there is a concern that the EFSI may well turn out to be a vehicle for privatisation. With the Stability and Growth Pact continuing to hold sway over public finances, public investment will remain constrained and governments will seek to make the necessary investment in public services and infrastructure by engaging in (costly) private/public projects. The EFSI might then be the vehicle that amplifies this drive for such initiatives.

Challenges Ahead for the ETUC: How Can this Plan Be Made to Really Work?

At the time of writing, the European economy finds itself in a sort of »grace« period. Falling oil prices have boosted real household disposable income, demand and growth have picked up somewhat and there is also much hope that the ECB's »quantitative easing« (finally being implemented six years after the outbreak of the financial crisis!) will lift growth by pushing down the euro exchange rate.

However, this »grace« period may be about to be end soon. If the European economy started to recover in the middle of 2014, one of the reasons was that policy decided to »take a holiday« from »austerity«. In view of the May 2014 European elections, it is perfectly understandable that political leaders did not want to get caught in a situation where the voters would be going to the ballot boxes at the same time another cut in aggregate demand was shocking the economy and its jobs.

The »austerity drive« may have moved into the background but, as recent developments in Greece show, it has certainly not disappeared. In fact, the latter is probably an understatement. What the troika institutions are doing to the Greek economy indicates that, after its political pause, »austerity« is coming back with a vengeance. We are holding our breath for the aftermath of the coming elections in Spain and Portugal. Once this »hurdle« is passed, these countries could very well be forced into a renewed »austerity« and deregulation drive.

We have to stand ready to demand a strengthened investment plan.

This also means that the idea of a European Investment Plan will remain valid as one possible way to offset some of the »austerity« effects and also as a way to push for a real, robust recovery, a recovery that is not a »one shot« recovery but a recovery that transforms itself in a self-sustained virtuous cycle in which additional demand triggers additional investment, triggering new jobs and hence again new demand.

The ETUC, like trade unions all over Europe, therefore has to stand ready. We have to stand ready to demand a strengthened investment plan. A plan that targets new additional investment instead of simply shifting existing investment into new categories. A plan that avoids becoming a vehicle for privatisation and makes public sector investment its key focus. A plan that does not tend to make the stronger economies even stronger but aims to lift distressed economies out of their structural crisis. A plan that does not keep silent on the important dimension of job quality and that, instead of basing itself on the outdated and erroneous slogan »a precarious job is better than no job at all« defends the logic that »creating decent jobs with fair pay will make for a decent recovery«.

These are the reasons why we have started, and will continue to strengthen, discussions and negotiations with the Commission about the implementation of the plan, as well as about the need to correct its limitations and shortfalls. It's a difficult but indispensable exercise, an exercise in which we need full support from our affiliates, because such negotiations will be effective only if they take place also in individual countries and sectors.

That's what I mean when I say that we have to stand ready. Ready to demand, ready to negotiate to get concrete results, and ready to support our bargaining capacity with proper campaigns and actions. Investment is one of our key priorities for the future and I, as General Secretary designate of the ETUC, can assure people that the new political team will indeed stand ready. It is time Europe heard the voice and the needs of workers.

A CMKOS Vision for the Czech Republic

Josef Stredula

By way of introduction I shall make a few brief comments on the current economic situation in the Czech Republic. In the seven years from mid-2006 to 2013, the Czech Republic was ruled by a coalition of right-wing parties. From the very outset, its policy was focused on pushing through so-called economic »reforms«. These included not only the introduction of a flat-rate income tax, reducing tax rates for the wealthiest citizens, but also the privatisation of social transfers, notably old age pensions and the levying of charges for and privatisation of public services, particularly in health care. The right-wing governments were focused so intently on their »reforms« and on their efforts to implement them as soon as possible that they »failed to notice« the onset of the global economic crisis. The warnings from the Czech-Moravian Confederation of Trade Unions (ČMKOS), which drew attention to the crisis and sought to put together a national anti-crisis plan, were overlooked and trivialised.

ČMKOS warned the government about the acute dangers of the mounting economic crisis almost a year before it struck the Czech Republic. At the same time, ČMKOS offered suggestions for anti-crisis measures. The unions, however, were overlooked and even mocked by the right-wing government.

The facts underlying the developing concern about the mounting economic crisis, which were substantiated by ČMKOS, were dismissed as scaremongering and its proposals – focused mainly on support for economic development and employment – were rejected as nonsense. Until the end of its term of office, the coalition was convinced that the Czech Republic would avoid the crisis that was becoming increasingly evident and that it would remain an island of stability in crisis-hit Europe.

Time was thus wasted in the Czech Republic with the endless debates involving mainstream politicians, bank analysts and independent »economists« and of course in the media about whether or not the economic crisis would emerge there. When the crisis actually broke out at the beginning of 2009, all the government was capable of was a few chaotic, unrelated and, above all, ineffective measures. In fact, the only tangible result of this policy was a tripling of the state budget deficit, which reached about 7 per cent of GDP. This significant increase in the deficit, however, was not a consequence of implementing a well-thought-out plan in support of economic growth, but a passive reflection of its decline.

Despite the right-wing government's conviction that the Czech Republic would – miraculously – avoid the economic crisis, the country experienced a substantial decline, as GDP fell by 4.8 per cent in 2009. The right-wing coalition, which in the meantime had changed only slightly, then launched vigorous efforts to combat the budget deficit, the very deficit that had come into being because of the coalition's own »reforms« and inaction in the period of economic crisis. The consequence of this was further economic decline, public sector wage cuts and a marked increase in unemployment. In 2012, the Czech Republic once again fell into recession for two more years, with GDP dropping 1 percentage point, while the neighbouring economies grew.

The Czech economy was again hit by crisis in 2010 and 2011, but this time as a consequence of so-called fiscal consolidation.

Throughout this time, ČMKOS protested and demonstrated against the destructive policies of the right-wing coalition government and systematically came up with proposals for specific measures aimed at stimulating the real economy. In 2012, it incorporated its proposals in a key programming document, »The ČMKOS Vision for the Czech Republic«.

In this document, ČMKOS – for the first time in its history – outlined a comprehensive approach involving fundamental changes to economic, social and tax policies and also put forward key proposals for the fight against corruption and the underground (shadow) economy. The document fulfilled its purpose, showing that there was an alternative to the long-term restrictive and destructive policies of successive right-wing governments. In key areas, it set out the direction now being taken by the current government (although not all the objectives in the document are being pursued).

In addition to short- and medium-term measures, however, this document also contained a whole range of long-term initiatives. Besides support for research and development, technical training, exports, small- and medium-sized businesses and social housing, this mainly involved efforts to develop a wide range of infrastructure projects. In accordance with our vision, these projects should not only be the direct, long-term »driving forces« behind Czech economic growth, but should also bring about significant multiplier effects for the development of the entire Czech economy. In this respect, ČMKOS has long supported development of the Czech energy sector – with proposals to build additional units at the existing Temelín and Dukovany power plants – and the development of water transport. We believe that current investment aimed at making the Elbe River navigable and, in a longer perspective, linking the North, Baltic and Black seas with the the construction of the Danube-Oder-Elbe Canal, is just the kind of investment that will provide Europe as a whole with the long-term benefits of cheap water transport (even though, as yet, such investment goes beyond the framework of the Juncker Plan).

Czech`s absorptive capacity is constrained by a whole set of administrative regulations – drafted primarily in Brussels, by the way.

In our opinion, other attempts at linking Central European economies with infrastructure investments should be supported. This mainly involves developing a high-speed rail system between Berlin, Prague, Munich, Bratislava, Vienna and Warsaw in the north and the Balkans in the south. This may be considered the key construction project of the next 15 years.

Mid- to long-term key construction projects are required, linking and connecting Central European economies.

Likewise, it is necessary to complete the linking up of the motorway network in Central Europe – connecting the Czech network to Austria and completing the connection to Poland – and also to enhance road transport capacity on other routes in order to facilitate the connection of regions that are lagging behind to the development of the national economy.

These, then, are our objectives. Reality, however, often differs significantly from what we wish it would be. The extent to which the calculations underlying the Juncker Plan are realistic and whether infrastructure projects will really involve the envisaged multiplier effect remain to be seen. Also at issue are whether projects aimed at increasing labour productivity in the least developed EU countries should be supported with the same resources and whether the issues of tax havens in the European Union, capital flight and revenue losses should be addressed in a more comprehensive manner. Without properly curbing tax evasion, for example, many investment measures are inefficient as their profits will ultimately disappear somewhere abroad.

The problem with the Czech Republic today is not that the government prevented – directly or indirectly – support for investment, particularly for infrastructure. Quite the contrary. What is at issue here is the fact that we have been facing a serious problem with the Czech economy's absorptive capacity in relation to investment for at least the past two years. This may seem paradoxical, in view of the significant levels of domestic debt in all sectors, including infrastructure, but unfortunately these are the facts. At present, investment in the Czech Republic is constrained by a whole set of administrative regulations – drafted primarily by the EU administration in Brussels, by the way – which have succeeded in preventing, delaying and increasing the cost of investment.

The long and burdensome administrative procedures concerning building permits have been holding back a number of important construction projects for years, which is why the Czech economy is not capable of responding promptly to demand, especially with regard to investment. For at least the past two years, we have not been able to implement investment projects for which financial resources have been earmarked, either from investors' own funds, the state budget or EU funds. Preparations for construction are lacking, land purchasing rates are stagnant, public procurement is overly complicated, there are problems with the Building Act and with construction procedures as a whole, and there are very substantial problems as a result of the complicated environmental impact assessment (EIA) system.

It may be said that the current government of the Czech Republic – with very strong support and assistance from their social partners, namely the trade unions and businesses – is trying gradually to eliminate all these accumulated obstacles. This process, however, is highly demanding, in terms of both legislation (as it is necessary to make or amend dozens of laws) and management and coordination.

We believe that we are aware of our weaknesses, but also of the goals that we want to achieve in the economy. We consider it our priority to substantially improve business conditions, to establish a transparent environment in terms of tax, social security and health insurance, and also to respect the legitimate demands of employees. Therefore, we demand a fairer distribution of the tax burden between labour and capital, not only within individual economies but also within the EU as a whole. Juncker's Plan should also be accompanied by the raising of such questions and by proposals for dealing with them.

We are ready to support specific suggestions in the Juncker Plan but, at the same time, we require that these measures should lead unequivocally to substantial improvements in the situation of workers and of all citizens.

Growth and Employment in Europe: The Situation Calls for a More Ambitious Approach

Candido Mendez (UGT General Secretary) and
Ignacio Fernandez Toxo (CCOO General Secretary and ETUC President)

The »Juncker Plan« constitutes an acknowledgement of the shortcomings of previous European policy-making in terms of both short-term policy, which is resulting in a slow and costly economic recovery, and Europe 2020, a long-term policy adopted in 2010 as a means of strengthening an economic recovery originally expected to take place at the end of the (first) recession. Today, midway through this course, it is clear that this approach has not produced the desired results. Not only have we failed to achieve the objectives of Europe 2020 (intelligent, sustainable and inclusive growth by means of investments in education, research and innovation, a commitment to creating a low-carbon economy and an emphasis on job creation and poverty reduction), but statistics show that these goals are slipping farther and farther from our grasp.

The root cause of this failure is clear. Objectives were never backed up with the instruments and measures needed to pursue them successfully. Furthermore, the EU and its member states have implemented policies based on diametrically opposed priorities designed to reduce public debt and deficits and to stabilise financial markets. The additional resources allotted have been devoted exclusively to shoring up banking and financial systems. No expansive policies for the creation of employment or investment in R&D, education, the alleviation of poverty and inequality or the environment have been implemented since 2010. As a consequence, we find ourselves further than ever from the goals laid out in Europe 2020.

Relentless budget-cutting has prevented productive investment policies. As a result, countries are mired in economic contractions.

The Commission openly admits this, noting that investment in the European Union has fallen by approximately 15 per cent since 2007. The plunge has been more dramatic in a number of member states, the most notable cases being Spain (–38 per cent), Italy (–25 per cent), Portugal (–36 per cent), Ireland (–39 per cent) and Greece (–64 per cent). Relentless budget-cutting policies have prevented these countries from implementing productive investment policies. As a result, they are mired in economic contractions that have brought economic recovery and job creation to a halt and have severely limited their ability to pursue sustainable growth and improve their structural competitiveness.

However, there is now some room to manoeuvre. Higher levels of savings and financial liquidity can be mobilised for productive investment. Member states and regional authorities must do what it takes to foster this type of investment. The Commission has stated that member states with sufficient budget margins should invest more heavily and those in tighter circumstances must nevertheless do their best to make productive investment a budgetary priority. The Investment Plan for Europe factored into the EU's multiannual financial framework for 2014–2020, which is expected to generate 315 billion euros in new investment capital, will strengthen the thrust of national and regional initiatives. The Commission's ambition is to make significant progress on three major policy objectives: boosting job creation and economic recovery, providing for the long-term needs of the European economy and enhancing European competitiveness and strengthening the European dimension of the Union's human capital, productive capacity, knowledge base and physical infrastructure.

This plan contemplates the creation of a European Fund for Strategic Investments with an initial value of 21 billion euros, which will be used to provide two different types of financing: risk support for long-term investments and greater access to risk financing for both SMEs (enterprises with up to 250 employees) and so-called »mid-cap« [middle capitalisation] companies (enterprises with a workforce of between 250 and 3,000). The fund will focus on infrastructure projects that deliver high social and economic value, such as broadband and energy networks, transportation infrastructure, education, research and innovation and renewable energy and energy efficiency and will facilitate financial instruments (loans, equity and guarantees) rather than provide grants. No thematic, sector and geographic pre-allocations will be made; projects will be selected on the basis of their individual merit and their ability to maximise the overall value of the fund.

The initiative will be launched with a 16 billion euro guarantee created under the EU budget (earmarked for long-term investments) and a 5 billion euro commitment from the EIB (reserved for SMEs and mid-cap enterprises). Although this seed money will constitute the total contribution to be made by EU institutions, it is expected to have a significant multiplier effect in terms of real investment and to pave the way for additional public and private contributions. The Commission estimates that over the initial three-year period 1 euro of fund protection could generate as much as 15 euros in private investment in the real economy. With regard to the contributions of the public and private sectors, co-financing by the member states will be compulsory and should ideally exceed the minimum legal requirement imposed.

The Plan is designed to ensure that financing goes to projects that meet the needs of the real economy. Lists of investable projects of European significance will be prepared and a single-entry investment advisory hub will be created in order to pool expertise and strengthen technical assistance at all levels. The final strand of the plan will involve improving the environment for investment by removing barriers to investment across Europe, reinforcing the Single Market and working towards a streamlined regulatory framework that will simplify regulations and reduce administrative burdens.

We have serious doubts regarding the Juncker-Plan's effectiveness. The situation calls for a more ambitious approach.

We at Comisiones Obreras (CCOO) and the Unión General de Trabajadores (UGT) are convinced that expansive monetary policy measures must be accompanied by coordinated fiscal policy measures designed to stimulate demand and, by extension, employment. This was the route taken by the United States seven years ago. Nevertheless, given that the Juncker Plan calls for only a limited initial investment of 21 billion euros and relies on the »multiplier effect« to generate up to 315 billion euros in additional private sector investment, there are serious doubts regarding its effectiveness in real terms.

UGT and CCOO are also concerned about several aspects of the Plan that remain unclarified. Given the tendency of private investors to concentrate their investments in zones that already enjoy a high level of development, the implementation of lending criteria based solely on efficiency rather than geographic and sectoral considerations could aggravate existing inequalities within the Union. Furthermore, there is no clear indication as to who will benefit from the fund or the processes and conditions involved in such transactions or, on the other hand, who will contribute, the form that such contributions will take, the conditions under which they will be made or the mechanisms to be implemented for channelling liquidity to businesses in each member state. Lastly, given that the lion's share of the investment envisioned in the Plan will be private sector investment by means of financial instruments and will not involve the mobilisation of public capital, its impact may well be limited.

CCOO and UGT believe that the situation calls for a more ambitious approach along the lines of ETUC's »A New Path for Europe«, a proposal for a ten-year investment plan with the potential to create 11 million new jobs in the EU. Nearly eight years after the onset of the crisis, European citizens are still suffering the daily consequences of economic and social uncertainties. Their living and working conditions have steadily deteriorated under the weight of erroneous fiscal austerity policies and the devaluation of wages these policies have supposed. Many lives are being destroyed by unemployment, precarious labour situations, inequality and poverty. Putting an end to the recession and the economic stagnation so many of our economies are mired in and restoring citizens' hope and confidence are the problems that most urgently require EU leaders' attention today.

The EU has the potential to combat this crisis, but it must chart a new course that leads to economic stability and the creation of decent jobs in a social Europe. The EU must be an effective instrument for building a more prosperous, egalitarian and democratic future. In order to fulfil that mission, it must develop a longer-term perspective, which means making the massive investment needed to put the economies of EU countries on a progressive, environmentally sustainable path towards social growth.

Investment policy needs to be closely aligned to a policy designed to increase demand.

Europe must harness without delay the power of public and private investment to push up employment levels, generate decent jobs and foster competiveness and innovation. The welfare and future of the more than 5 million European young people now without work hinges upon the creation of decent, quality employment opportunities. Therefore, an investment plan on a European scale such as that proposed by the ETUC must prioritise investment in job creation, especially in countries now suffering unacceptably high rates of unemployment. Nevertheless, investment alone will not be enough to trigger growth. Given that Europe's investment deficit is in large part due to the lack of demand, investment policy must be closely aligned to a policy designed to increase demand and, by extension, wages.

From the ETUC's perspective, the Commission's investment plan falls short of the mark. Given that the EU's investment deficit has ranged over the past few years from 280 billion euros to a critical 515 billion euros during the worst moments of the crisis, it is difficult to imagine how a plan contemplating 315 billion euros in investment spread over a three-year period could provide the strong push required to put the European economy back on the right track. That is why the ETUC plan calls for the more ambitious approach of pegging investment at 2 per cent of EU GDP every year for the next ten years. A plan on this scale is essential if we are to lay a firm foundation for the sustainable reindustrialisation of the EU and generate up to 11 million new jobs.

The ETUC also calls for adequate democratic governance of the investment plan and the inclusion of social indicators in project selection criteria. Social partners at the national level should participate in the selection of projects submitted for financing and the ETUC should likewise be involved in the work of the European task force to ensure that the focus of investment rests solidly on the reindustrialisation of Europe and supports the creation of decent jobs and quality services.

It is troubling that EFSI may force governments into risky Public-Private-Partnerships that leave taxpayers liable for eventual losses.

It is troubling that the Commission's plan focuses heavily on neoliberal »structural reforms« and could possibly force governments to enter into risky public/private partnerships that leave taxpayers liable for any eventual losses. We believe that Europe needs more social investment and that such investment should be excluded from calculations of budget deficits. Pegging annual investment at 2 per cent of EU GDP, as suggested by the ETUC, would have the beneficial secondary effect of stimulating private investment and private sector modernisation. These investments will help consolidate a solid industrial base, quality public services, a socially inclusive model and well-organised national systems, as well as innovative research and education institutions.

In Europe, 1 trillion euros have been spent to bail out the financial sector. On top of that 1 trillion euros in revenues are lost each year due to tax evasion and tax fraud. The moment has come to devote 250 billion euros a year over the next ten years to creating decent jobs and guaranteeing a better future for European citizens. We cannot continue to maintain »austerity« policies that perpetuate unacceptably high levels of unemployment, precarious jobs and unfair tax structures or pursue economic policies conceived solely to reassure jittery markets that do not support social progress. Europe needs massive investments in sustainable growth, decent employment opportunities, quality public services, a socially inclusive model, well-organised national systems and innovative research and educational institutions. It also needs to eliminate tax fraud and tax evasion and move forward towards a more equitable and progressive system of taxation that will contribute to the financing of a solid investment plan.

Given the continued high levels of unemployment and poverty in Spain, the benefits of the supposed reactivation of the economy signalled by certain indicators appear not to have trickled down to average households, which makes it impossible to assert that the country has emerged from the crisis. The solution to this dilemma is to boost families' purchasing power, a task that will require efficient employment policies that promote and reformulate active employment policies and strengthen the social protection system by raising contribution-based and »assistential« (non-contributory) unemployment benefits, which are currently in free fall. It will also be necessary to mobilise exceptional resources at both the national and the European level for an employment »shock plan« designed to boost hiring and employment levels, especially among the sectors of society worst hit by the crisis (the long-term unemployed, young people and those without training). All this must be accomplished within the framework of a new, more efficient and sustainable model of productivity, without which a definitive end to the crisis will be impossible. Such an endeavour will require profound and ongoing changes in key aspects of economic and labour affairs. This is an area in which significant investment must be made. Carrying out the right infrastructure improvements in Spain, which is a major European gateway, will open up important development opportunities.

It is essential to strengthen public regulatory capacities, even with regard to the financial sector.

Recovery is contingent on renewed consumer demand and the only way to reactivate consumer spending is to allow wages to rise in real terms. Rising wages provide the only guarantee of continued growth, an expanding job market and a fairer distribution of the fruits of recovery and national wealth, which for a long time has been shifting out of the hands of workers and into the pockets of stockholders and business owners.

Collective bargaining is a key factor in the reactivation of consumer demand. This mechanism has historically helped Spanish society achieve key economic and social objectives and has done much to keep the threat of growing inequality, social exclusion and poverty in check. The Third Agreement on Employment and Collective Bargaining (AENC), signed on 8 June after months of hard negotiation, represents a positive step towards the construction of a framework for a swifter, long-lasting and fairer economic recovery.

Finally, UGT and CCOO consider that it is essential to strengthen public regulatory capacities, even with regard to the financial sector, introducing tax reforms from the perspectives of revenue and expenditure. This will have a decisive impact on the country's economic and social model and are essential tools for achieving a fair and equitable distribution of tax burdens and revenues and guaranteeing the welfare of all of Spain's citizens.

Golden Opportunity for Countries with Fiscal Space to Invest

Karl-Petter Thorwaldsson

At the time of writing this article – May 2015 – economic developments in Europe are characterised by insecurity. Although there are some positive signs, many major economic challenges remain. Several European countries continue to face a very tough economic situation. Toughest of all is the situation in Greece, which is under unprecedented pressure from high debts and extensive spending cuts. The main challenge for Europe is its mass unemployment, which continues to plague our continent. But my hope is that when we meet in Paris in the autumn the bright spots in the European economy will be stronger and more numerous.

For Europe to grow as a whole, Germany, Sweden and others must reduce their current account surpluses and increase investments.

The potentially improved outlook for the European economy is due to several interacting factors that, in combination, strengthen confidence and optimism in Europe. A more active monetary policy and lower oil prices are two important factors. But what gives me most reason for optimism is that an increasing number of European politicians are coming to see that the way forward must be to focus on growth and investment.

Europe needs a more modern transport infrastructure and housing for our young people.

Anyone taking a sober look at European economic development since the financial crisis can see how counter-productive austerity policy has been. The United States, which has implemented a more active monetary policy and a less austere fiscal policy, has seen considerably better economic growth than Europe. At the beginning of 2011 the United States and the euro area had approximately the same level of unemployment. But now unemployment in the United States is 5 per cent, while unemployment in Europe is above 10 per cent.

If the failed European austerity policy can be phased out there will be scope for renewing Europe's economic strength. Our continent needs vigorous investment. Europe needs a more modern transport infrastructure that links our continent together. We need housing for our young people. More needs to be put into research to make us more competitive and future-oriented. We need to invest in better welfare that provides security and, not least, gives more women the opportunity to take paid employment.

For me, the question of more women in the workforce is one of the most important issues for stronger European development. We need to pursue a wise policy that makes Europe a continent in which the population is growing, not shrinking. People migrating to our continent must be greeted by a policy that invests in jobs, not passive exclusion.

In its political rhetoric the new European Commission has focused on the need for increased investment in Europe. I welcome this. It is also excellent that the Commission is now clearly pointing out the problems being created for all of Europe by Germany's large current account surplus and the country's low level of investment. But the Commission needs to be even clearer.

If Europe as a whole is to grow, with more and better jobs, then not only Germany but also Sweden and other countries must bring down their current account surpluses and increase their investments. Countries with a surplus should have the same obligation to correct imbalances in Europe as countries with deficits.

The European Commission has presented an investment plan that has been allocated several billion euros from the EU budget, but which, according to the Commission's calculations, will make a total contribution of about 300 billion euros through extensive leverage effects over a period of one to three years. I am somewhat sceptical about the potential size and effectiveness of the European Commission's investment plan. For me the plan is no solution to Europe's economic challenges and will probably be only of marginal real economic significance.

However, the investment plan performs another important purpose. It symbolises a Europe with new ambition, with less austerity and more of what is needed long term to build a strong and productive Europe.

It is obvious that now is the right time for increased investment in many EU countries. The need is great in many countries and at the same time there are extensive unutilised resources.

In its highly interesting report in autumn 2014 the IMF clearly showed how great the advantages would be in today's macroeconomic circumstances if many countries increased their investments.

- In countries with infrastructure needs, the time is right for an infrastructure push. Borrowing costs are low and demand is weak in advanced economies, and there are infrastructure bottlenecks in many emerging-market and developing economies.

- Public infrastructure is an essential factor of production. Increasing public infrastructure investment raises output in the short and long term, particularly during periods of economic slack and when investment efficiency is high.

- Debt-financed projects could have large output effects without increasing the debt-to-GDP ratio, if clearly identified needs are met through efficient investment. In other words, public infrastructure investment could pay for itself if done correctly. (IMF, World Economic Outlook, October 2014)

Sweden is a clear example of a country that has particularly favourable conditions for increasing the volume of public investment. Sweden has a high unemployment rate of about 8 per cent. At the same time, Sweden has good general government finances with low central government debt of about 40 per cent of GDP and the Swedish state can borrow very cheaply nowadays. Public sector net financial wealth is more than 25 per cent of GDP. At the same time, there are great neglected infrastructure needs.

Investments have been low in most EU countries in recent years but Sweden and others have had a downward trend since the 1970s.

Investments have been low in most EU countries in recent years, which is one of the explanations for the prolonged recession. But some countries, including Sweden, have had a downward trend in investment ratios since about 1970. In Sweden low housing construction is an important explanation for the low investment level.

If the private and public sectors save more than they invest, a surplus on the current account arises. This has happened in Sweden, which has had large current account surpluses – that is, more savings than investments – since the financial crisis of the 1990s.

There may be »good« and »bad« reasons for both deficits and surpluses on the current account. Good reasons for surpluses include, for example, that a country produces world-leading goods and services. Bad reasons for surpluses are the lack of publicly funded social security, leading to large private savings, or obstacles to a rational level of investment in an important sector.

Sweden has had a current account surplus every year since 1994; in other words, people have saved more than they have invested. In recent years the surplus has run at more than 5 per cent of GDP. Both the private and public sectors have run large surpluses on average over the period; that is, saved more than invested.

How can the Swedish surplus be explained, then? In my opinion the main explanation should be sought in Sweden's very low housing construction.

During the period 1950 to 1970 housing construction increased substantially in Sweden to reach more than 100,000 dwellings per year at the beginning of the 1970s. Housing investment fell sharply at the beginning of the 1990s as a consequence of a major tax reform, combined with reduced housing subsidies and a deep recession. Since then the number of completed dwellings has averaged about 20,000 per year. In recent years the pace of building has increased to about 30,000 dwellings per year, but about double that amount would be required to meet the need.

Sweden's total investments have followed two trends in relation to GDP in the period since 1950: rising until about 1970, and thereafter falling to a level corresponding to 15 to 20 per cent of GDP. Investments in machinery and intangible assets were on a level with comparable countries, while investment in housing and property was considerably lower than in the rest of the world.

Maintenance levels of existing infrastructure have been far too low for a long time.

It is obvious that housing investment has been too low in Sweden for a long time. This means major welfare losses for Swedish society. The low level of housing investment in Sweden is also a central factor behind the doubling of housing prices in Sweden in the past 10 years, putting them today at a historically very high level. The high housing prices, and hence rapidly growing private debt, constitute a macroeconomic risk to Sweden, which has also been pointed out by the European Commission, among others.

But there are other investment deficits that need to be addressed promptly. In recent years deficiencies in the maintenance of roads and railways have become increasingly apparent. A large number of derailments and breakdowns have occurred in rail services, particularly in the Stockholm area.

Everything indicates that maintenance levels of existing infrastructure have been far too low in Sweden for a long time. In the past three decades the value of the infrastructure stock has grown far more slowly than GDP. At the end of the 1970s the capital stock was almost 80 per cent of GDP, while today it is only about 60 per cent. The infrastructure stock in Sweden would have to be worth about 30 billion euros more to be the same size as the average for the period 1968–1978, measured as a percentage of GDP.

In my view, the appropriate level for central government investment in Sweden – mainly roads and railways – should be increased by about 1 billion euros per year, and thereafter grow in pace with GDP. Increased public investment may then help to create scope for increased private investment, not least in new and better communications.

Summary

In the short and medium term I see three essential areas in which I believe the public sector should give priority to increased investment.

In the first place, in Sweden there are major neglected maintenance needs in existing public infrastructure, not least in the form of neglected maintenance of the road and rail networks. Therefore I believe the most important priority in the near future is increased maintenance of existing infrastructure.

In the second place, a substantial increase in housing construction is needed. Ever since the 1990s Sweden's housing construction has been at far too low a level. Housing construction is mainly a matter for private actors but central government has a role to play. Higher housing investment would generate higher employment in the construction industry in the short term, but above all would lead to better functioning of the labour market in the long term. A wise housing policy needs to include both long-term structural reforms and more temporary stimulus to increase and maintain the pace of building.

Let's increase investment in what links our countries together.

In the third place, Sweden and Europe need to concentrate on new modern and climate-smart investments that bind together regions, countries and our entire continent. Not least we in the trade unions of Europe have a role to play in putting pressure on politicians in Brussels and at home to increase investment in what links our countries together and builds our common Europe to become strong and productive.

Sweden and several other countries in Europe have a golden opportunity to increase investment when unemployment is high and interest rates low. The needs are great. Now is the time for increased investment.

Greece: A Policy Proposal for a Viable Exit from the Crisis

Yiannis Panagopoulos (President, GSEE, Greece)

For the past five years, the Greek economy has been trapped in a crisis of unprecedented depth, intensity and duration. The economic and social consequences are clearly visible. The steep contraction of real GDP by more than 25 per cent since 2008, the skyrocketing unemployment rate and – even more worrying – the number of long-term and young unemployed people, the dismantling of protective labour market institutions and the economy's declining productive capacity and disinvestment are just some aspects of a grim economic reality that allow little, if any, hope for a strong and sustainable recovery in the near future.

The Greek crisis is rightly understood as the immediate result of the 2007 financial meltdown, its fiscal repercussions and the poor performance of the frontloaded »reform« agenda subsequently imposed by the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). Nevertheless, the current crisis is also an episode in a far more prolonged crisis, deep-rooted in the Greek economy, which is characterised by constant weakening and technological degradation of its productive basis, deterioration of its export performance and gradual consolidation of a finance-led accumulation process. The upshot of these alarming trends is a peculiar, highly fragile and unsustainable accumulation regime of relatively fast real GDP growth, but industrial decline that has given rise to soaring macroeconomic imbalances and, eventually, the recent economic collapse.

The current crisis is also a reflection of a long-evolving and unsustainable accumulation regime and soaring macroeconomic imbalances.

It is clearly evident today that Greece needs urgently to shift away from »austerity« and embark on an ambitious and credible recovery plan. Furthermore, if such a plan is to offer a viable route to sustainable development it should clearly identify both the causes and the effects of the crisis and be fully consistent with the specific nature of the Greek economy and the institutional setting in which it is embedded. Given that lack of investment and of employment growth are at the heart of Greece's ongoing economic troubles, there is no doubt that reviving real investment is essential if the current deplorable socio-economic conditions are to be tackled. Such an investment strategy should fully recognise the crucial role of the state in shaping and supporting economic development, the prominent position of the social partners and social dialogue within the institutional framework of economic policy and the complex and asymmetric relationships that make up the European political establishment.

There is no doubt that reviving real investment is essential.

The Greek General Confederation of Labour (GSEE) has concentrated its efforts on working out a comprehensive crisis exit policy strategy for Greece that puts investment at the forefront of efforts to expand employment, boost growth and thereby drag the economy out of the crisis. The GSEE proposal is built upon three pillars:

First, implementation of a large-scale investment project oriented towards sectors in which the Greek economy traditionally has a strong comparative advantage due to the country's geographical location and physical conditions. In this framework, large gains in terms of income and employment growth are expected to arise by shifting investment towards:

- agriculture, with a particular focus on organic farming, the mechanisation and modernisation of production and the introduction of new innovative practices in marketing, trading and distributing agricultural products;
- high-quality forms of tourism that respect the environment and have a heightened awareness of the need to preserve the cultural and historical heritage of local communities.
- sustainable energy infrastructure and renewable energy.

In order to overcome the structural deficiencies of the Greek economy and reshape its production model top priority should be given to the allocation of substantial investment to manufacturing. This is particularly important because manufacturing products enjoy a high degree of tradability in world markets, have numerous links with other productive sectors of the economy and tend to involve high-productivity activities that exhibit dynamically increasing returns to scale. As a result, channelling substantial investment towards manufacturing is likely to be a key factor in generating high and sustainable levels of employment, value added and export performance. A recently published study undertaken by GSEE's Labour Institute underlines the profound significance of manufacturing industry in improving the developmental trajectory of the Greek economy, singling out specific sectors on which an investment plan should focus. According to the evidence presented, investment should be directed towards:

Investment should be directed towards selected manufacturing sectors with strong linkages to other important segments of the economy.

- high and medium-high technology manufacturing sectors with a view to reinforcing their export-intensity and further strengthening competitiveness;
- selected manufacturing sectors in which, although exhibiting dynamic growth in world markets in recent years, Greece's export share remains exceptionally low (for example, refined petroleum products, manufacture of chemicals and chemical products, crop and animal production, tobacco production);
- sectors that in recent years have experienced steadily declining investment, but retain strong ties and linkages with other important segments of the economy, while their products still account for a large share of domestic production (for example, manufacture of food products and beverages).

In addition, further investment is required in public works infrastructure, health care, education and other social services. Especially in the current adverse economic environment, it is both reasonable and necessary that the public sector should have a prominent role and, indeed, take the lead in undertaking such varied investment projects, needless to say not losing sight of the importance of the private sector's active involvement in the whole scheme. The whole investment project should ideally be part and parcel of a broader EU-wide recovery agenda to promote stronger and more balanced economic development in the euro area and the EU as a whole.

Second, effective implementation of such an investment project presupposes a fully functional financing scheme that would guarantee sufficient funds. On that issue, GSEE has long proposed a range of practical and theoretically grounded alternatives. In particular:

We propose a »reinvestment clause« in Greece's loan agreement with its partners in the euro zone.

- One promising means of project financing could be the introduction of a so-called »reinvestment clause« in Greece's loan agreement with its partners in the euro zone. This »reinvestment clause« is based on the idea of financing large-scale investment projects in the country out of a fund from the interest that Greece has to pay to the official sector. The proceeds of those investments would be passed on to the official sector lenders according to their contribution to the fund. In this way, Greece's heavy public debt burden would cease to be an obstacle to its growth performance and prospects of fiscal sustainability. Moreover, the euro-zone partners' consolidation efforts would essentially remain intact because these interest receipts would simply translate into a secure public investment flow abroad. It is worth noting that such a reinvestment clause is planned to apply only to those euro-zone member states with a strong credit rating. In our opinion, enacting this provision would rationalise the potential political cost of accepting this proposal, a cost which – in any case – would be low and manageable for the countries concerned, provided that the returns from participating in this investment programme are expected to be greater than the cash interest received on their loans to Greece.

- Another important funding resource might be the share of the 315 billion euros that the Juncker Plan for investment in Europe is projected to allocate to Greece. Although this agenda indeed stands a good chance of stimulating growth and job creation in Greece, GSEE is fully aware of its major limitations and in particular of the fact that it essentially adds no new money to the economy and is based on a scarcely plausible assumption with regard to leverage. As a consequence, particular attention should be paid to restructuring the existing EU Structural and Cohesion Funds with a view to redirecting their resources towards financing socially inclusive activities and innovative investment projects that offer strong growth potential. On top of that, in order to smooth the way for an investment-led recovery in Greece, it is also vital to expand the functioning and responsibilities of the European Investment Bank (EIB) to fund large-scale public investment and social projects. Finally, full use of a range of windfall taxes and property and wealth taxes could also make a substantial financial contribution.

Third, in GSEE's view, realising this investment plan presupposes a stable and sustainable macroeconomic environment that will stimulate investment and ensure immediate relief from the devastating social and economic consequences of the Troika's failed austerity experiment in Greece. To this end we propose the following institutional reforms:

- The design and implementation of an ambitious »Job Guarantee Programme« in Greece. The rationale for such a programme hinges on the urgent necessity for the public sector to regain its function as a guarantor of economic and social stability by offering to all unemployed people seeking work full access to employment with decent wages. In fact, GSEE considers such policy intervention of crucial importance given the favourable macroeconomic and financial effects it could deliver. In particular, recent empirical studies indicate that potential implementation of a Job Guarantee Programme in Greece could be expected to: (i) generate strong direct and indirect employment effects that substantially reduce unemployment rates, thereby contributing to social stability and cohesion; (ii) provide a major stimulus to the economy, strengthening macroeconomic stability and the financial position of both the private and the public sector; and (iii) provide revenue to the social security pension system and therefore support its long-term financial sustainability.

- Immediate abolition of all deregulation measures recently adopted under the Troika's internal devaluation agenda and adoption of a new set of progressive regulatory reforms aimed at reshaping the labour market. A cornerstone of our proposal here is restoration of minimum wage to its pre-reduction level, laid down in 2012. However, it should be emphasised that in order to bring about its expected favourable impact on domestic demand and growth, such a reform package should not be launched in isolation, but in tandem with additional labour market interventions and initiatives, including: a progressive reform of working time; firm action against the proliferation of irregular and precarious employment; the removal of all regulations that make it easier to lay off employees; and full re-establishment and reinforcement of the collective wage bargaining system.

- Introduction of a new progressive tax system in recognition of the critical role of taxation in promoting growth and development. GSEE has already proposed a tax reform plan for Greece that would provide adequate incentives and benefits to all private firms that invest in R&D, create high-quality jobs and fully respect labour rights. In our opinion, such a reform could have a substantial positive impact on economic activity and employment, as it is expected to improve confidence for private investment, while halting to the ongoing deregulation trend that depresses the level of internal demand and growth.

Implementing an investment plan cannot succeed without being closely integrated in a broader recovery project.

It is becoming increasingly clear that implementing an investment plan based on the priorities we have sketched cannot succeed and deliver the desired outcomes without being closely integrated in a broader recovery project to escape from the present socio-economic malaise and without the active involvement and intensified cooperation of and open dialogue with the social partners. GSEE, for its part, has consistently performed its institutional role by actively engaging in several forms of political activity, including: public interventions at policy summits and in decision-making processes; active involvement in forums of political and policy dialogue; and regular information exchange and collaboration with relevant policy bodies. In addition to that, its independent research department – the Labour Institute – has put its expertise at the service of this goal by producing a number of rigorous quantitative studies that could provide valuable technical assistance in the design, implementation and assessment of a socially inclusive investment agenda in Greece. However, it should be emphasised that in order to reach a consensus on the pillars and operational procedures of this national plan two requirements must be met. First, all the parties involved in the process should have enough authority and political power to express their views and suggestions about the formulation and credible implementation of the programme; second, institutional mechanisms should be established that are able to guarantee that all parties' commitments are binding.

Useful, But Insufficient – Investment Plans for Bulgaria Need to Focus More on Employment

Plamen Dimitrov (President, CITUB) and Dimitar Manolov (President, Podkrepa – Bulgaria)

The global economic and financial crisis has exerted quite a strong impact on investment in Bulgaria. The proportion of investment in GDP has declined sharply, from 33.5 per cent in 2008 to around 21 per cent, mainly due to the fall in private investment, a trend that is expected to persist in the period until 2018. Direct foreign investments in the country have shown an analogous trend: from nearly 30 per cent of GDP in 2007 they have fallen to around 3 per cent in the past three or four years, and the forecasts up to 2018 are fairly pessimistic, up to 3.4 per cent. Public investment remains stable for the time being, but this is due largely to EU funded projects, with no auspicious prospects for 2015 and 2016.

Since 2008 we saw a fall in private investments and plummeting foreign direct investments.

This prognosis is fairly discouraging in terms of opportunities for a speedy recovery of the labour market. Empirical data from a number of analyses show a dramatic negative correlation between the investment level and the unemployment rate.[1] The reasons for this are known: first, improved investment activity is crucial for increasing aggregate demand, which in turn affects economic activity and hence employment; second, improved investment activity plays a very important role in capital renewal because in the drive for competitive advantages, expansion creates new and better quality jobs.

As Figure 1 shows, this dependence has been pronounced for the Bulgarian economy, even more so since the drop in investment activity has been accompanied by other factors that have further aggravated the situation:

- Following a prolonged period of budget surplus during the years before the crisis, since 2009 the balance has been negative, reaching –3.7 per cent in 2014. The deficit target under the Consolidated Fiscal Programme for the period 2015–2018 is planned to fall gradually, from 3.0 per cent of GDP in 2015 to 1.5 per cent of GDP in 2018.
- Austerity measures affect both the income freeze policy and the amount of expenditure on active labour market measures, which has remained unchanged for three successive years, falling below 0.09 per cent of GDP.
- Private sector debt is significantly higher than in similar economies, and the problem is deepening. Deflationary pressure and low nominal growth are putting further pressure on private sector debt, and this in turn has a negative impact on investment.
- The crisis and the ensuing bankruptcy of the fourth largest bank in Bulgaria (CTB), as well as the large amount of non-performing loans are nurturing instability in the banking sector, which is a major obstacle to the expansion of lending and investment.

An Investment Plan Adequate to the Economy and the Labour Market Challenges

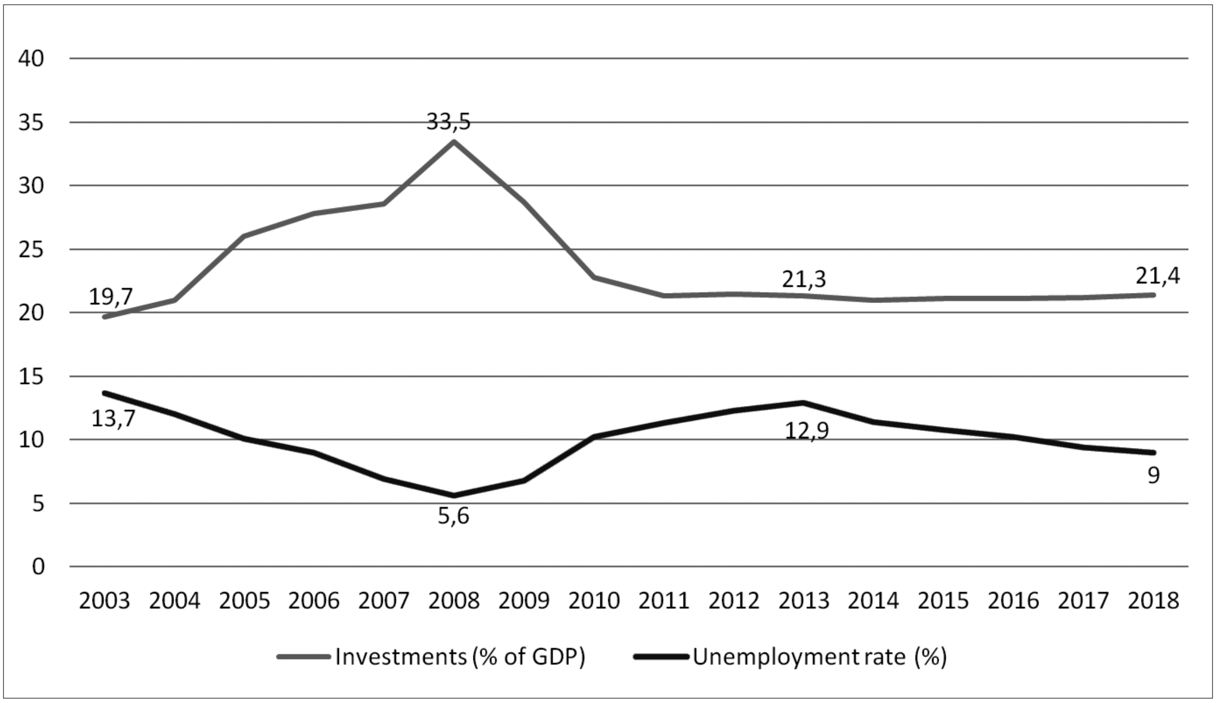
Under the Juncker Plan, Bulgaria has applied for funding of 14 projects in the amount of 3.5 billion euros. The biggest is the project for renovating homes and residential buildings costing 600 million euros. The rest are primarily infrastructural projects. They include the construction of the highway from Sofia to the Kalotina border crossing point, the Vidin–Botevgrad and Rousse–Veliko Tarnovo high-speed roads, as well as modernisation of the Karnobat–Sindel and Rousse–Varna railway lines.

Despite some positive effects the Juncker Plan's effects on employment will be insignificant and negative on wealth distribution.

The package also includes eight more energy projects to renovate the network of the Electricity System Operator (ESO), construction of water treatment plants in 40 municipalities and three new regional waste collection depots. The creation of youth employment via a grant scheme for unemployed students for businesses in the knowledge and digital economy is the only project in this priority axis amounting to 100 million euros.

1. ILO, An employment-oriented investment strategy for Europe. Studies on growth with equity, Geneva, 2015.

Figure 1: Investments and Unemployment in Bulgaria



Source: NSI (pre-data for 2014, for 2015–2018 the data are prognostic, taken from the government's medium-term budget forecast).

Against the background of the outlined pessimistic economic growth forecast for 2015–2018, with an average annual rate of 1.9 per cent, implementation of the planned projects would play a positive role in GDP growth. The Simulation Macroeconomic Model SIBILA[2] estimates the investment effect on GDP at the end of implementation of the projects in 2020 at 2.3 per cent (Table 1). One of the most positive effects of government investment spending is expected to be the acceleration of private investment growth. As a result, as of the end of 2020, they should increase by 8.7 per cent due to the planned projects.

At the same time, however, taking into consideration the lack of projects directed towards generating sustainable employment, simulations have shown insignificant medium-term effects on employment in the amount of –0.8 per cent as a result of the implemented projects. This means that, overall, the prevailing infrastructural and energy projects will create temporary jobs.

In this context, a number of important questions arise that must be resolved in advance and in the course of implementing the investment projects under the Juncker Investment Plan. However, it is even more important to identify additional measures and plans that would strengthen the joint effect of their application by stressing more and better jobs, tangible income increase and mitigation of inequalities.

Table 1: Medium-term Effects (as of 2020) of Implementation of the Planned Projects

Macroeconomic index	Effect
GDP	2.3%
Private investments	8.7%
Export of goods and services	1%
Import of goods and services	2.8%
Current account, % of GDP	–1.8 p.p.
Employment (15–64 years)	–0.8 p.p.
Inflation under HCPI	0.9 p.p.
Budget balance, % of GDP	–0.6%

Source: SIBILA impact assessment.

2. Simulation model of Bulgaria's Investment in Long-term Development.

- CITUB and Podkrepa expect the implementation of the Juncker Plan to take place with a uniform spread of investment benefits, including in the peripheral and poorer regions of the EU. The new initiative is not likely to increase the growth potential of the European economy due to further divergence in income levels in the different EU regions. Therefore, we are calling for funding also for small member states and small projects that meet the quality criteria.

What is the Commission's risk assessment regarding the initiative's effects on public finances?

- There is an overall positive *assessment of the impact* of implementing all these projects, but it is contradictor regarding a number of important components (for example, employment). In terms of the effects of implementing the initiative on public finances, we insist that the European Commission present information related to risk assessment of the materialisation of guarantees.

- There exists a real danger that funds will be redirected during the interim review of the Multi-annual Financial Framework (MFF) in 2016. Delays in adopting of operational programmes in the member states lead to an accumulation of unused resources that could be redirected to the investment programme and EFSI. This would present a potential threat to a source of funding that is of particular importance for Bulgaria – such as the operational programmes – if work on the absorption of funds from the new programme period is not accelerated.

- The impact of the plan on *the distribution of income and wealth* in Bulgaria will probably be negative, benefiting investors (with public guarantees) at the expense of tax payers, customers and, in particular, most workers. This possible negative effect should be prevented through the targeted allocation of public resources.

- The coherent balanced and inclusive strategy of economic growth and employment needed in Bulgaria requires an increase in budget funding of *the active labour market measures.* On one hand, this will lead to an improvement of the quality characteristics of the work force, but on the other hand, it will help private investors obtain the qualified workers they need to implement the planned projects.

- In order to strengthen sustainable and quality employment, Bulgaria needs an *investment plan for the revival of Bulgarian industry.* Investments in infrastructure, the energy sector and the environment will lay the ground for improving the business environment and, along with measures to strengthen the education and qualifications of the workforce, will be a strong incentive for public and private investment in new technologies and industrial production with high value added.

- As a consequence of the increased demand for investment goods, *secondary and multiplication effects* there can be expected with regard to consumption and higher tax revenues. Increased tax revenues (from improved collection and changes directed to fairer direct taxation) are a key source of industrial investment.

- The Bulgarian trade unions agree with the European Commission's position on the close interconnection between and opportunity to obtain *mutually enhancing effects from the three pillars,*[3] which requires taking simultaneous actions in all three areas (investment, structural reforms and fiscal responsibility), which will restore confidence and reduce insecurity, which in turn will induce more new investments and growth.

- In this respect, we deem it necessary to ensure more efficient coordination of Bulgaria's activities in terms of our participation in the Juncker Plan, including via regional cooperation, while at the same time using to the full the opportunities for targeted investment from other European sources and projects, in order *to achieve a better cohesion effect.*

- In addition, a new *prudent debt policy* on the part of the government would provide, via target emissions, an important public resource to be invested in the real economy to support the recovery and economic growth.

CITUB and Podkrepa support the Bulgarian projects included by the government in the Juncker Plan referring to:
- road and railway infrastructure (including the provision of accessible transportation to industrial enterprises);
- renovation of the network of the Electricity System Operator;

3. See European Commission, Annual Growth Survey, 2015.

- the water supply and sanitation sector (investment in construction and modernisation of water infrastructure including water supply facilities and wastewater treatment facilities);
- ecology (housing renovation and regional waste systems), as well as support for businesses to meet European environmental standards.

At the same time, we think that, in parallel with the investments in infrastructure, energy and environment, there should be investment projects (including via other or mixed sources and forms of funding) intended to provide additional opportunities for sustainable employment and higher incomes.

Serious structural weaknesses of industries and the defects of the labour market require a more diversified approach.

Such a diversified approach would help considerably in overcoming the serious structural weaknesses and defects of the Bulgarian labour market.

Investment in Human Capital

Investment in human capital should be stimulated by means of different instruments, depending on the source: European funds, budget expenditures of the state and municipalities, funds of businesses and organisations. They will improve the quality of the workforce, accelerate the adaptation of the unemployed to the primary labour market and provide conditions for sustainable employment. For this purpose action is needed in three main areas:

- active labour market measures should be primarily regionally oriented and the budget funds for their funding increased to the pre-crisis amount of BGN 175 million;
- under the Juncker Plan a project for the creation of sectoral funds for training, qualification and pre-qualification for micro, small and medium enterprises should be developed in order to guarantee better flexibility and efficiency;
- accelerated adoption and financial security for implementation of the Law on School and Preschool Education and the Law on Dual Professional Training as a normative basis for improving structural opportunities for youth employment.

Large-scale Plan to Support Industry

The Bulgarian trade unions and their industrial federations, together with branch employer organisations, with the help of external experts and representatives of the academic community, have developed a package of investment proposals that will lead to the revival of Bulgarian industry and create new and sustainable jobs, higher income and living standards. Our proposals include:

- supporting small and medium-size enterprises (SMEs) to meet European standards;
- integration of Bulgarian SMEs in the structures of European industry as suppliers of spare parts, junctions, elements and units;
- support for chains of enterprises that increase value added for the production of end products, in compliance with all labour and social standards;
- support for the construction of interconnecting links for the delivery of natural gas;
- support for energy projects for electricity network renovation;
- investments for implementing energy saving production technologies, primarily for large energy consumers;
- creation of testing laboratories for the certification of Bulgarian products;
- encouraging the production of high priced products corresponding to new consumer models – healthy foods, bio-foods, foods with high added value;
- establishing favourable conditions for the outsourcing to Bulgaria of the research and development activities of foreign manufacturers.

Establishment of a Sustainable »Social Economy« Sector

The social economy includes all types of enterprises, regardless of their legal and organisational form, established and operating primarily for social purposes. It occupies a specific space between the state (with its protective mechanisms) and the market (with its economic efficiency and focus on capital based profit). The larger this space is, the larger is the necessity for the social economy to cover the needs that cannot be satisfied by existing institutional practices.[4] The social economy is an important instrument for:

4. MLSP, National Concept for Social Economy, Sofia, 2011.

- development of social services, combating poverty and social exclusion;
- inclusion of disadvantaged groups in the labour market;
- improvement of the functionality of the system of social services;
- development of local economies, diversifying the supply of goods and services.

The inclusion of the social economy sector as a project in the Juncker Plan will expand the opportunities for increased economic growth and contributions to GDP, employment and the creation of a favourable environment for innovative, socially significant entrepreneur solutions.

EFSI takes away the risk only for the investor and not for the public.

One of the stated goals of the Plan is investment in the real economy and job creation. However, we fear that there are no sufficiently clear measures to guarantee the environmental and social sustainability of the projects that will be supported. In the past, entrepreneurship, risk and volatility were depicted in a positive light (as stimulating innovation). The expectation is that if risk is transferred to the public, it will be easier to attract private investment. However, this takes away the risk only for the investor and not for the public.

Furthermore, it is difficult not to read Juncker's statement that »we need smarter investment, more focus, less regulation and more flexibility when it comes to the use of public funds« as yet another call for deregulation.

Institutional Framework, Management and Trade Union Participation

The Bulgarian contribution to the Juncker Plan takes the form of the provision by the Bulgarian Development Bank (BDB) of funding in the amount of 100 million euros for approved projects. The role of this resource as a multiplier of investment in the public and private sectors poses serious challenges, including quality requirements, economic feasibility and competitive market principles. These specifics of management and implementation of the projects under the Juncker Plan presupposes a high degree of preparedness on the part of the private sector and the public administration in providing attractive and, at the same time, socially significant projects.

It is difficult not to read Juncker's statement as yet another call for deregulation.

As things stand, it is not foreseen that the trade unions will be active participants in the guidance and selection of investment projects. At the same time, it is clear that the Juncker Plan itself is useful, but insufficient to satisfy the investment needs of the Bulgarian economy, and still less to play the role of a catalyst of employment, which is a motor of income growth. The objective necessity of investment diversification and the resources and financial instruments used not only presuppose, but rather impose increased trade union activity and inclusion in the management process. This means that all existing forms and bodies of tripartite and bipartite cooperation, as well as social and civil dialogue, should be used by the trade unions to have an impact:

The National Council for Tripartite Cooperation provides social partners with the widest range of opportunities for submitting and discussing proposals and projects. This is due to its national scope, five Standing Committees (Income and Living Standards; Security Relations; Labour Legislation; Social Implications of Restructuring and Privatisation; Budget Policy), as well as 51 sectoral and branch councils.[5] To these we must also add two other key bodies whose management is based on the tripartite principle, and which have a strong influence on labour market policies, qualifications and vocational training:

- the National Council on Employment Promotion (NCEP) that is developing the National Action Plan for Employment and monitors the implementation of various labour market measures;
- the Management Board of the National Agency for Vocational Education and Training (approves the State Educational Requirements for Professions and licenses the Centres for Vocational Training).

CITUB and Podkrepa are represented in the *Monitoring Committees of the National Strategic Reference Framework and in the nine Operational Programmes for the 2014–2020 programme period.* In five of the Operational Programmes (Transport and Transport Infrastructure, Regions in Growth, Innovation and Competitiveness, Environment and Human Resource Development) substantial investment is focused,

5. Rules on Organization of the Activities of the Councils for Tripartite Cooperation, CTC, 2001 (SG, issue 57 of 26.06.2001) Art. 3 and Art. 6.

which might turn out to be decisive in strengthening the Bulgarian economy if it is prioritised within the framework of employment and economic growth (Table 2). In assessing the programmes' funding and details, the trade union representatives would be in a position to indicate additional areas for investments to be funded by the EU Investment Plan.

We insist on the establishment of a tripartite Consultative Council to discuss project applications.

The institutional framework under the management of the Operational Programmes, besides the nine individual management bodies and monitoring committees, foresees the establishment of a *Fund of Funds* that will manage the financial instruments under the Operational Programmes in a centralised manner. Some 777 million euros are expected to be managed by the Fund of Funds for the programme period as a whole. This structure, which will be established with the help of European experts, will be managed by a state company, and it will sign contracts with the management bodies of the Operational Programmes; it will also appoint financial intermediaries to manage the portfolios.

Bulgaria's lesson learned is that it is not enough to guarantee better profits for private companies.

In addition to the existing structures for tripartite cooperation and tripartite management bodies, the Bulgarian trade unions have insisted to the Deputy Prime Minister responsible for European Funds and Economic Policy that a *Consultative Council* be established with the participation of *representatives of the government, employers and trade unions* to discuss the projects applying for funding under the Juncker Plan.

In this way, the market competitive principle of management of the Plan will be supplemented with the important and necessary assessment of projects in terms of their social significance and, moreover, provide a better opportunity for coordinating all investment projects and different funding sources and deploying the various financial instruments.

Table 2: Operational Programmes for Bulgaria, Sources of Funding (EU Fund) and Funds for the 2014–2020 Programme Period

Operational Programme (OP)	EU Fund	Funds (EUR)
OP Regions in Growth	EFRD	1,311,704,793
OP Human Resource Development	ESF	883,476,570
	YEI	110,377,490
OP Science and Education for Smart Growth	ESF	352,619,543
	EFRD	243,381,138
OP Innovation and Competitiveness	EFRD	1,181,615,516
OP Transport and Transport Infrastructure	CF	1,144,687,261
	EFRD	459,761,907
OP Environment	CF	1,133,619,883
	EFRD	371,204,258
OP Good Governance	ESF	285,531,663
Programme for Maritime Affairs and Fisheries	EFMAF	88,066,622
Programme for Rural Development	EAFED	2,338,783,966

Notes: Abbreviations: EFRD – European Fund Regional Development; ESF – European Social Fund; YEI – Youth Employment Initiative; CF – Cohesion Fund; EFMAF – European Fund for Maritime Affairs and Fisheries; EAFED – European Agricultural Fund for Rural Development.

Since the early 1990s, Bulgaria has adopted the market-liberal dogma of »reducing the role of the state«. Progressive tax revenues have been substituted with indirect taxation. Trade union and labour rights have been limited in favour of more labour »flexibility« and mobility. As a result, Bulgaria has turned into a quasi-off-shore zone based on social, labour and tax dumping (»beggar thy neighbour«). However, contrary to official claims, this has not led to inflows of foreign investments that would promote sustainable economic development. Issues related to size and market failure must be overcome, for example, with regard to retail agricultural producers. Due to their small size they cannot negotiate good terms for materials and raw products. They lack the opportunities to seek foreign markets. Often they cannot even meet the administrative requirements. The establishment of a state association to support them could help with the development of small agricultural producers, combat the isolation of remote areas and provide jobs.

CITUB and Podkrepa thus advocate a comprehensive EU development plan that takes regional differences into consideration, not solely to guarantee the profits of private companies, but to support vital initiatives from society.

Investment-led Growth in Ireland

Patricia King (General Secretary, ICTU, with Tom Healy and Daragh McCarthy, NERI-Institute – Ireland)

Investment Holds the Key to the Future of European Society

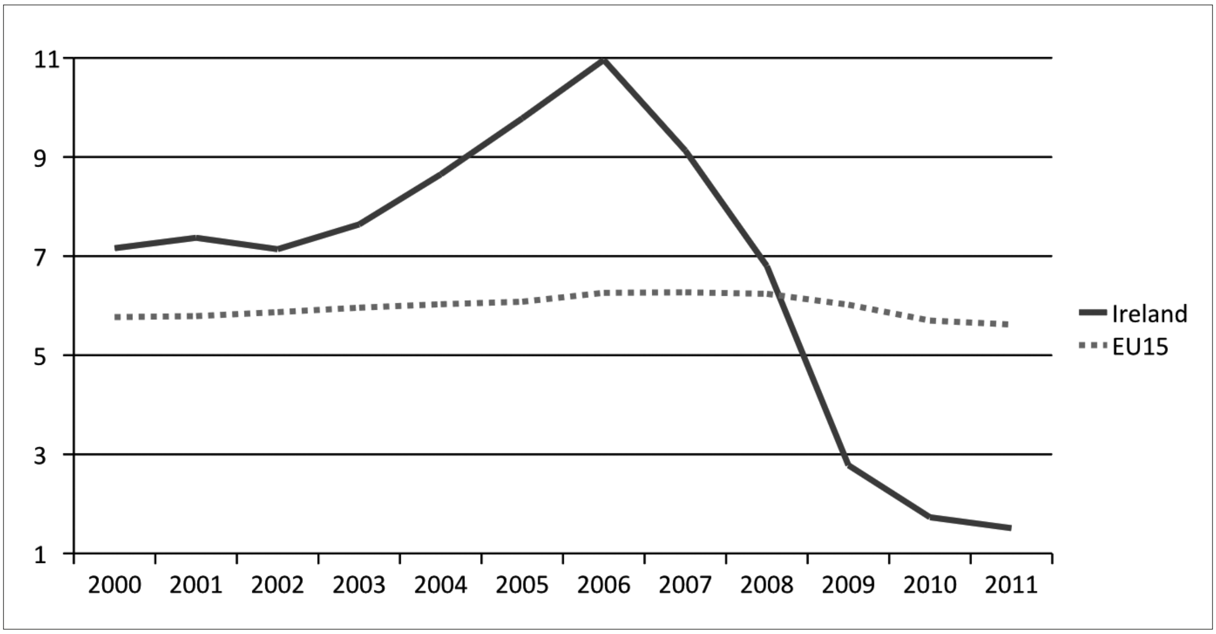
Spending on productive capacity includes not just »bricks and mortar« but all resources that give rise to socially useful results over time. Spend today and reap a return in the future: this is the logic of investment. It can cover investment in education and skills, as well as investment in knowledge and, of course, machinery, building, land and equipment. Not all forms of investment are equally productive, however, and distortions can arise in favour of speculative, wasteful or socially destructive investment. In many cases the gains from investment are not fully captured by the private investor making the investment; this is common with investments in knowledge production, for example, and significant under-investment can arise where private returns are perceived as too low or too risky. Lack of access to funds may also hamper investment if the cost of borrowing is too high or the terms and conditions too onerous.

Total investment in Ireland is the fifth lowest in the EU. Public and private sectors have been deleveraging in tandem since 2009.

Economic growth is driven by innovation and the accumulation of physical and human capital. It is important to recognise all forms of capital, including human, social and tangible capital. Investment in education, training and knowledge production and diffusion help to raise social well-being and boost economic growth in the medium term.

Capital investment delivers three outputs for the economy:
- a short-term stimulus to GDP associated with the investment expenditure and its multiplier effect in the domestic economy;
- short-term creation of jobs associated with the investment expenditure and its multiplier effect in the domestic economy;
- a long-term increase in productive capacity, export competitiveness and social well-being.

Figure 1: Value of Construction Sector as a Percentage of Gross Value Added, Ireland (2000–2011)



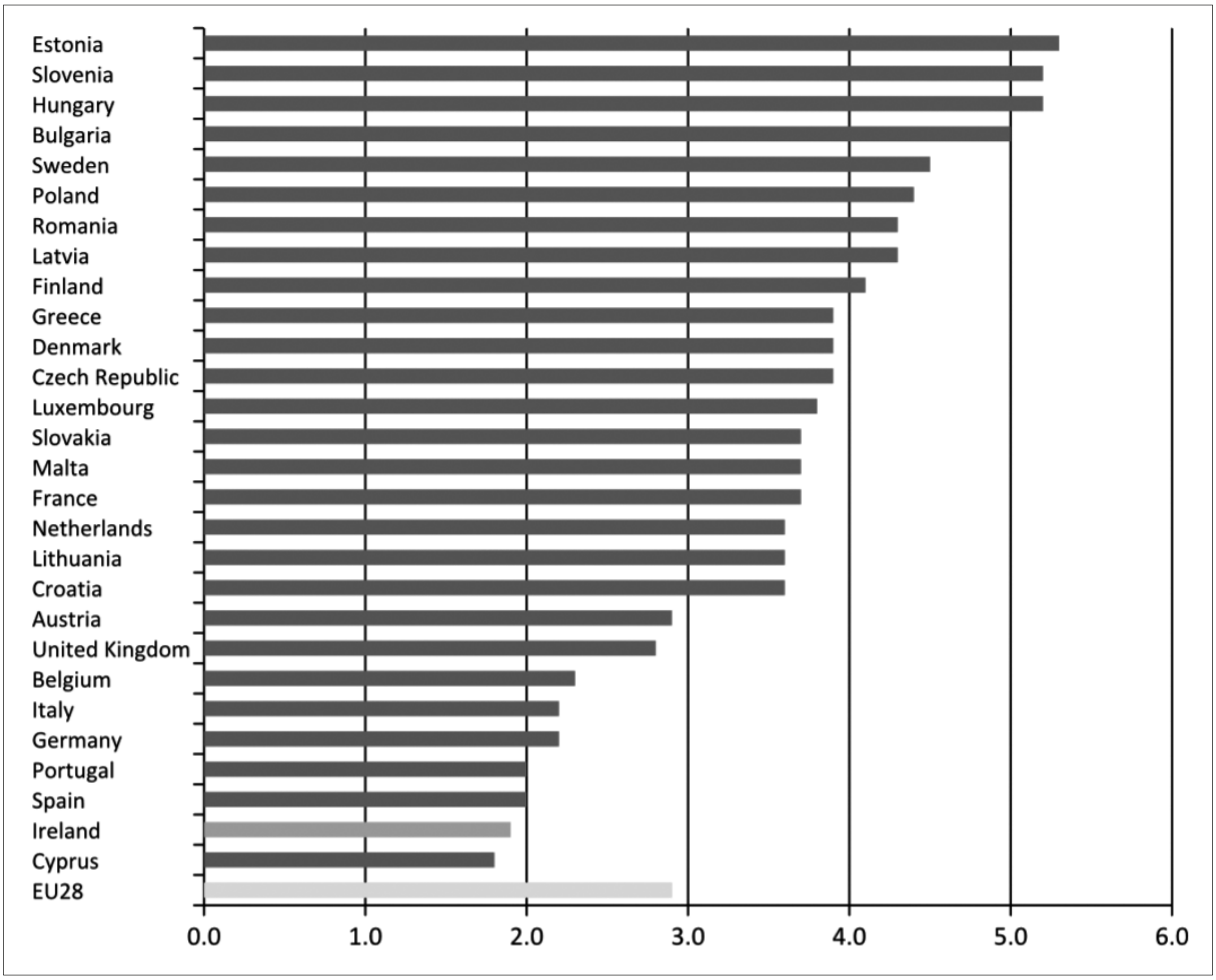
Source: McDonnell and O'Farrell (2015).

Investment Rates in Ireland

Ireland's economy underwent rapid expansion in the years prior to the financial crisis of 2008–2012. Some of this investment was speculative in nature and highly dependent on cheap credit and a distorted tax system that fuelled a property bubble, including investment in the wrong type of assets and, in many cases, the wrong physical location. The Irish economy was already at or close to full employment by 2004–2005 and by 2007 the construction sector accounted for an unsustainable 13.3 per cent of all employment (McDonnell and O'Farrell 2015); indeed, it accounted for almost half of total employment growth in the economy between 2000 and 2007. Investment had also become heavily skewed towards construction. The construction sector represented almost 11 per cent of gross value added by 2006 and was well above the EU15 average for over a decade prior to the crash. During the period 2009–2012 there was a sharp downturn in the levels of public and private investment, driven mainly by the collapse in construction activity (Figure 1) and by the Irish government's policy shift towards fiscal austerity. Public capital investment was cut by over half as part of Ireland's austerity programme.

By 2011 Ireland was recording the lowest level of investment as a percentage of GDP of any EU state, as the public and private sectors deleveraged in tandem. The proportion of investment devoted to capital investment was 15 per cent in that year, compared with 30 per cent in 2006. Moreover, the rate of public investment was among the lowest in the EU. In 2014 the rate of public capital expenditure was the second lowest in the EU (Figure 2). While there has been some recovery in invest-

Figure 2: Total General Government Investment as a Percentage of GDP (2014)

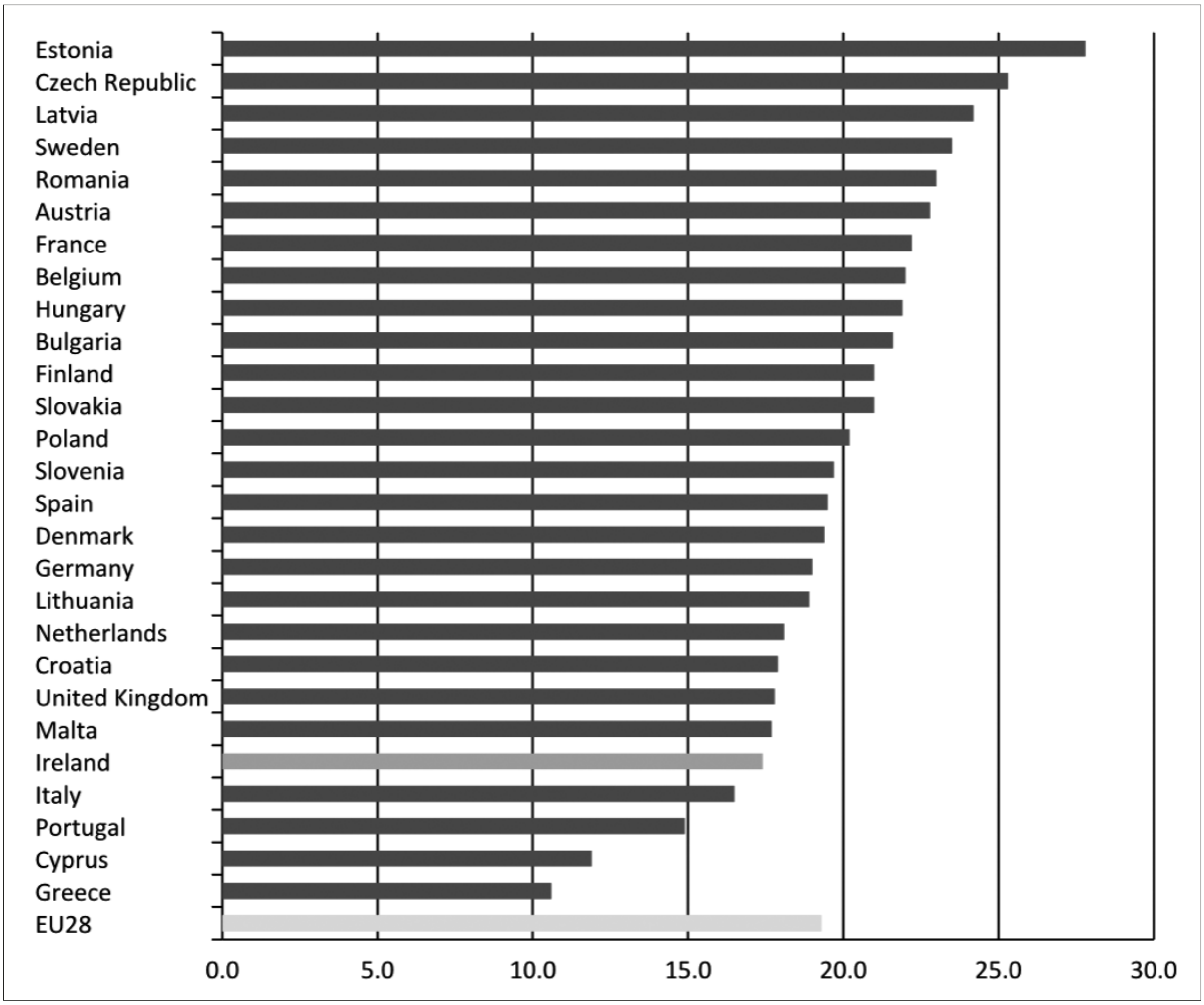


ment activity since 2011 it is clear that there are acute shortages in areas of key need, including provision of suitable and affordable accommodation for a growing population, as well as investment in areas such as renewable energy, building conservation measures, public transport, broadband and water infrastructure. Total investment was still no more than 17 per cent of GDP in 2014, the fifth lowest rate in the EU (Figure 3).

With improving public finances and some limited fiscal space there is an opportunity for the public authorities in Ireland to avail themselves of cheap credit to finance long-term strategic investment. However, this needs to be undertaken in a careful and measured way with access to rigorous cost/benefit evaluation of project proposals. The level of public capital spending (1.9 per cent of GDP in 2014) is too low and should be increased gradually over a three to five year period to reach a long-term goal of around 4 per cent of GDP. Such public general government investment can be complemented by »off the books« public commercial investment based on appropriate commercial criteria and revenue flows. Broadband infrastructure, social/affordable housing and green energy are three examples of investments that could be taken off the books. Public enterprises and government can help leverage private investment by providing a strategic lead and a long-term partner.

Investment in hospitals and schools should generally be undertaken »on the books«, while others can be »off the books« if user charges are above 50 per cent of the revenue stream.

Figure 3: Total Investment as a Percentage of GDP (2014)



Priorities for Funding

A wide range of infrastructure deficits have built up in the Irish economy after seven years of fiscal caution and low rates of investment. These deficits are constraints on the economy's medium-term productive capacity. There are a number of areas that urgently require increased public investment. These include (to mention only a few examples): (i) *communications and broadband:* Ireland still performs poorly in terms of broadband access and speed outside the major urban areas; (ii) *social housing:* there is an acute shortage and crisis, particularly in urban areas; the number of new houses is currently less than half what is required to meet the needs of a growing population and workforce; (iii) infrastructure for *early childhood education and care:* childcare costs are very high in Ireland and this is currently a major constraint on second earners and lone parents fully engaging with employment; (iv) investment in *renewable sources of energy:* as well as infrastructure and equipment this includes resources for dedicated green research institutes mandated to investigate the best ways Ireland can harness green energy, in particular through its natural comparative advantages in wind and wave energy; (v) *water infrastructure:* much of Ireland's water infrastructure dates back to the nineteenth century. This has led to high rates of leakage and constitutes a health hazard in many areas, with water unfit for consumption; (vi) much of the building stock constructed before and during the boom period was not build to adequate standards: *refurbishing, rebuilding and retrofitting of schools and the social housing stock* is required to meet environmental and habitation standards and reduce Ireland's reliance on energy imports.

Vehicles for Investment

Ireland would benefit from the creation of a dedicated national development bank or Strategic Investment Bank (SIB) owned wholly or in part by the Irish government, but independent of it. Such a bank could be mandated to focus on projects designed to boost Ireland's national innovative capacity and projects to boost the quality of Ireland's physical infrastructure. The SIB model has been shown to work well in Germany and elsewhere (Duggan 2013). Ireland's cost of borrowing is close to historical lows and financing for investment in infrastructure and innovative capacity could be centralised and leveraged through such an independent SIB or fund. Crucially, the SIB should be able to draw on a group of international and domestic experts when evaluating future infrastructural needs, and when determining the relative value of different projects and the costs and benefits of these projects. Important for this evaluation would be an understanding of demographic and structural shifts in the economy.

Ireland would benefit from the creation of a dedicated national Strategic Investment Bank (SIB).

Investment in knowledge infrastructure and knowledge production is just as important to productive capacity as investment in physical infrastructure and should be part of the SIB's mandate (McDonnell 2015). This is because knowledge is central to long-run economic growth and tends to be under-produced by the market. Research and development and investment in new knowledge tend to be under-produced because not all of the economic returns to knowledge can be captured by the producers of new knowledge and because the returns to knowledge production are highly uncertain before the investment is made.

Investment in knowledge infrastructure and knowledge production tends to be under-produced by the market.

The Irish government announced the Ireland Strategic Investment Fund (ISIF) in June 2013. The National Treasury Management Agency controls and manages the fund, which was established in December 2014. The ISIF was set up to be a sovereign development fund and the plan is to reorient 6.8 billion euros of the National Pension Reserve Fund (Ireland's sovereign wealth fund) towards commercial investments in the Irish economy. The ISIF has a dual mandate: investment return and Irish economic impact. This means that it can be used as a vehicle for the strategic development of Ireland's productive and innovative capacity. Funds will be allocated to sectors with the highest economic impact and the lowest levels of deadweight and displacement. This will include infrastructure that enables competitiveness in areas such as water, energy, transport, broadband, critical real estate for foreign direct investment, R&D and education. The ISIF is the institution in Ireland best placed to evolve into a fully formed SIB.

The Strategic Banking Corporation of Ireland (SBCI), established in 2014 as a lending vehicle for small and medium-sized enterprises, could be incorporated within the SIB. SBCI funding should target high-potential start-ups looking to borrow for investment purposes. The SBCI could be expanded to include a network of branches in each major urban area and provincial location to advise and assist small and medium-sized enterprises. This would also improve awareness of the SBCI's services amongst would-be entrepreneurs. It should be possible to draw on and expand European Investment Bank funding for small and medium-sized enterprises, especially in areas of new green technology. Finally, special purpose vehicles could be established within the SIB to focus on investment in particular sectors of the economy, such as housing.

Special Purpose Vehicles: The Case of Social and Affordable Housing

Even in times of strong economic growth up to a third of the Irish population have relied on state assistance to meet their basic housing requirements. The waiting list for secure-tenure social housing in Ireland has tended upward since the construction of new houses became almost entirely dependent on private provision and new forms of short-term, market-based housing support were introduced in the 1980s. Public capital expenditure on social housing provision and regeneration fell by 82 per cent between the end of 2007 and the start of 2014. As a result, there are approximately 90,000 people on the list at present out of a population of 4.6 million. The Irish government's Social Housing Strategy 2020 envisages a mix of exchequer funding, public private partnership funding and funding through a new housing finance agency that will leverage private investment.

Even in good times up to a third of the Irish have relied on state assistance for housing.

The current Housing Finance Agency (a non-commercial state agency with a total lending portfolio of 4.2 billion euros in 2014) lends to local authorities and housing associations. Since 2010, the HFA has advanced 162 million euros for local authority mortgages and 193 million euros for social housing. Last year, the HFA signed a 150 million euro finance contract with the European Investment Bank. The current strategy puts the emphasis on supporting construction through the private sector and building up the capacity of Approved Housing Bodies (AHBs). However, local authorities are constrained by the need to fund their capital spending through the exchequer. Past experience casts doubt on the ability of AHBs to undertake the necessary scale of borrowing and delivery. Given the extent of the collapse in the construction sector, it is highly questionable whether private firms will be able to deliver to the extent required. Even if the private sector is able to recover rapidly in the next few years, it has never been able to provide affordable houses for a large portion of the population.

The new Strategic Housing Fund is scheduled to be operational in the second quarter of 2016. The Strategic Housing Fund is a financial vehicle aimed at securing funding for the social housing sector. The approach to funding needs to be broad enough so that the new agency can build, refurbish and upgrade stock, while ensuring that the state's contribution does not compromise its ability to comply with the fiscal rules. The Irish Congress of Trade Unions' pre-budget submission called for an additional 500 million euros per annum in off the books public investment to boost the supply of social and affordable housing (ICTU 2015). Greater financial provision, though necessary, is not the only challenge that needs to be considered. Planning, managing large-scale borrowing, handling construction, maintenance and regulation need to be addressed. Currently, these functions are carried out by a diverse range of public and private agencies. A specialised body can apply a more focussed approach compared with local authorities and government departments, whose efforts are dissipated over a wider range of responsibilities. The goal is to create a sustainable mechanism for investment in the provision of quality affordable homes in line with households' circumstances.

References

Duggan, V. (2013) Ireland's Investment Crisis: Diagnosis and Prescription, June, NERI Working Paper No. 3.

ICTU (2015) Jobs, Investment and Homes, July, ICTU Pre-Budget Submission.

McDonnell, T. (2015) Strategic Fiscal Policy in the Republic of Ireland, Forthcoming NERI Working Paper.

McDonnell, T. and O'Farrell, R (2015) Internal Devaluation and Labour Market Trends during Ireland's Economic Crisis, July, NERI Working Paper No. 28.

Investments for Sustainable Growth and Employment in Germany and Europe

Reiner Hoffmann

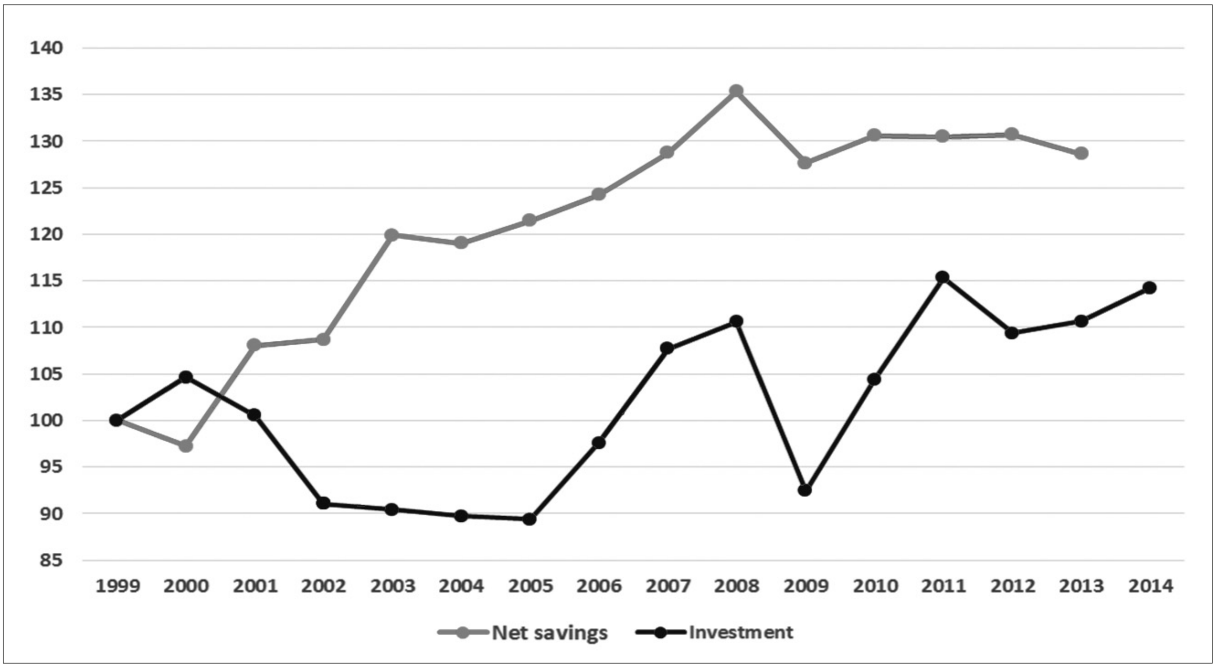
The Current Situation in Europe

The volume of investment in the EU today is, according to European Commission data, 15 per cent down in real terms on that of 2007. In other words, as much as 430 billion euros less is being invested now in Europe than seven years ago. Even if one excludes extreme developments (such as property bubbles), the investment rate was 2 per cent lower in the EU in 2013 compared with its long-term average.

After years of crisis and the spending-cuts mantra of »austerity« policy, the time has come to switch to sustainable growth via investment. Taking the economy as a whole, the biggest national economy in the EU is saving too much and investing too little (Figure 1). More public and private investment in Germany would be good for Germany *and* Europe: business activity in Europe would be stimulated, imports would rise, imbalances would be dissolve and employment and incomes would again show a definite upward trend.

At European level, the proposals of Commission president Juncker are a good starting point. The European Fund for Strategic Investments (EFSI), agreed in June, has an initial capital of 21 billion euros, 16 billion euros of which is guaranteed from the EU budget and 5 billion euros EIB loans. These guarantees should serve to cover the risk for private investments in strategic projects, with the result that, all told, 315 billion euros' investment can be released over three years. The idea, admittedly, depends on private investors' being prepared, based on this risk guarantee, to invest in long-term projects. The basic question arises here of whether the very low amount of guarantees and/or of EIB lending is sufficient to kick-start real projects in the amount of as much as 315 billion euros. It's far from certain whether the envisaged dual (1x3x5=15) ratchet effect will even work.

Figure 1: Savings and Investment in Germany (Index 1999 = 100)



Source: Eurostat.

What's more, there remains a lack of clarity about the projects due to be supported through the EFSI. The German government insists that the fund will only support »economically viable projects of European import«. That means that the only projects worthy of support are those that involve only a slight reduction in risk (via the Fund and the EIB monies) to get them going. The following questions therefore arise:

- This demand for immediately economically viable and profitable public investment neglects the character of public assets, which constitute a pre-condition without which the private sector cannot function at all. The point here is thus not the underwriting of less profitable projects but the provision of public assets that our continent urgently needs. Then comes the question: if only »economically viable projects of European import« can be supported, what about investment needs that are entirely reasonable, but are not »profitable«, even when underwritten? Examples include many projects in public services that are explicitly foreseen in the draft regulations for the EFSI, for example, in the »social« segment, the »general and professional training« segment and so on?

- Furthermore, what about the large-scale need for investment in classic public investments that are not »economically viable«?

Germany's Debt Brake Acts as an Investment Brake and Destroys the Capital Stock

German fiscal policy has for some considerable time been restrictive, broadly speaking. At first, there was just the debt rule set out in the Maastricht Treaty and the Stability and Growth Pact. Then came the debt brake, followed by the fiscal pact and now the centre-right/centre-left federal government has decided to make »Black Zero« its budgetary target for 2019. Thus there has been a constant escalation in the steps to be taken: first, limiting government borrowing, then reducing debt and now the achievement of budget surpluses. Federal finance minister Schäuble is now even talking about cutting all debt to 60 per cent of GDP by 2023. This is yet a further step beyond the target of »Black Zero«.

The outcome is that active fiscal policy – that should work counter-cyclically to smooth out economic fluctuations – has effectively been neutered. In its place, radical cuts in debt have been elevated to the top priority, no matter where the country might be in the economic cycle. Long-term modernisation of German capital stock, investments in the markets of the future and the provision of public assets have fallen by the wayside. An economy of scarcity and empty exchequers blights many cities and local councils. Spending is being cut, many public services have been eradicated or privatised and hence are unaffordable for the lower-paid.

This policy rests on the false assumption that keeping public debt as low as possible is good in itself, supposedly enhancing investor confidence and thus private sector investment activity; as an adjunct to this, public (routinely maligned as inherently expensive and inefficient) investment is held to »crowd out« private investment. This stance of the German government has also dominated policies on the euro, proposing that highly indebted countries such as Greece should cut spending sharply, an approach that echoes economists Kenneth Rogoff and Carmen Reinhart for whom a (debt to GDP) ratio of 90 per cent or more reduces growth.[1] This thesis simply doesn't stand up empirically. Not only is it based on counting errors and dubious choice of data from isolated observations,[2] but it also leaves no scope – from the perspective of economic history – for defining clear thresholds for critical levels of sovereign debt. A recently published examination of the period from 1880 to 2008 made it quite plain that the growth of industrialised countries hardly varied at all in accordance with the debt level. Nor could any threshold be observed with regard to when a country had more difficulty accessing capital markets. And there was nothing to indicate that cutting spending in the crisis really did lead to more growth, as many German politicians like to assert.[3]

What is striking about Germany and indeed Europe as a whole is the limited investment activity over many years. Germany has built up an investment bottleneck of around 90 billion a year. The share of gross public fixed

1. Carmen Reinhart and Kenneth Rogoff, Growth in Time of Debt, NBER Working Paper 15639, January 2010, http://www.nber.org/papers/w15639.

2. Thomas Herndon, Michael Ash and Robert Pollin, Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff, PERI Working Paper Series 322, University of Massachusetts Amherst, April 2013.

3. Union der Deutschen Akademien der Wissenschaften et al. (eds), *Staatsschulden: Ursache, Wirkungen und Grenzen;* http://www.akademienunion.de/fileadmin/redaktion/user_upload/Publikationen/Stellungnahmen/3Akad_Bericht_Staatsschulden2015.pdf.

asset investments in GDP has been stagnant in Germany for ages, at around 2 per cent, which is only half the level in the United States, Japan and France. Annual sovereign investments in Germany are regularly lower than write-offs, which results in a declining value in public infrastructure: net investments are negative and the German state is eating into its own substance (Figure 2). If debt is subtracted from the value of state infrastructure, the state still held net assets worth 800 billion euros before reunification in 1990. Now, however, these assets are worth practically nothing because of the lack of investment and privatisations. This is a high-risk trend for the sustainability of sovereign finances. The most dramatic outcome is the investment bottleneck among local councils. Arithmetically, the net fixed assets of the councils went down in the years 2003 to 2013 by 46 billion euros. According to estimates from the KfW local council panel, the total investment gap for councils has in the mean time jumped to 118 billion euros.

Germany has snookered itself with its debt brake and especially its »Black Zero« as main fiscal objective.

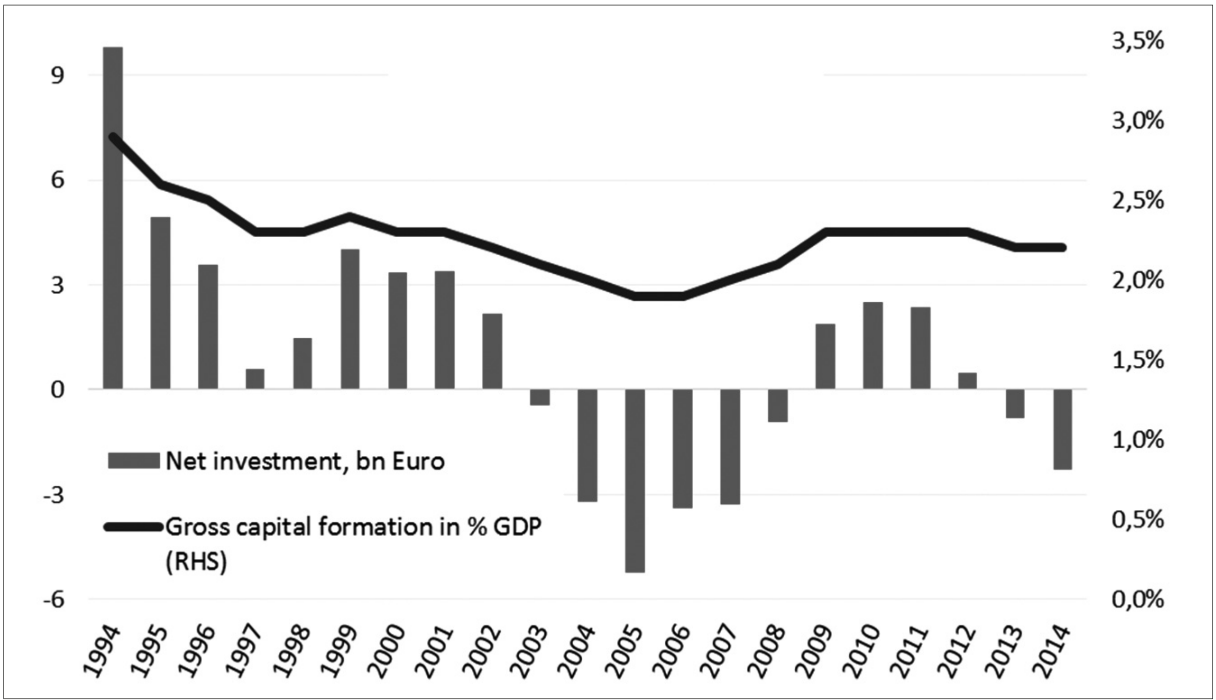
As Figure 2 shows, this investment bottleneck is a long-term phenomenon spread over several economic cycles. It has grown especially strongly in Europe since the crisis, but in Germany investment activity in relation to economic performance (investment ratio) has been declining continuously since reunification. One consequence of this I that Germany has snookered itself with its debt brake and especially its »Black Zero«; the same is true for the whole of Europe with the fiscal pact's shift from an investment mode to one of cuts. The debt brake has become a brake on investment.

And most neglected of all today is the fact that this financial crisis has cost current and future taxpayers dear. In 2009, Germany's debt-to-GDP ratio rose in just one year from 66 to 83 per cent, two-thirds of which is due to the bailout of the financial sector.

Germany in Investment Mode?

The federal government has finally recognised that the destruction of the public capital stock can no longer be allowed to continue without concerted action. An expert committee set up by economy minister Gabriel in the summer of 2014 presented its report on 21 April this year

Figure 2: Public Investment in Germany



Source: Eurostat.

and this, despite the diverse range of its members, pretty well reached a consensus in its conclusions.[4] On some key issues, however, the trade unions, under the aegis of the DGB, could not back the majority position on the committee. In a dissenting opinion the DGB set out its contrary views on the financing and implementation of public investments, as well as on how to promote private sector investment through fiscal measures.[5] This directly criticises making debt reduction the priority over investment:

> *»Therefore Germany must re-invest in its future and for a competitive, innovative economy and a sound, social and green polity. Today's investments are tomorrow's jobs and prosperity. Financing them must take place fairly and can be done favourably given the historically unique environment of low interest rates so that two things can be bequeathed to future generations: a modern and well-functioning economy, infrastructure and society, while at the same time with no great impact upon the public purse. Therefore we propose to buttress investments in Germany through a ›pact for fair financing and enactment of public investments‹.«*

As early as 2012 the DGB proposed a »Marshall Plan for Europe« in the form of a comprehensive investment programme for the EU totalling an annual 260 billion euros for the next decade. The Plan delineated the investment sectors of the future and sketched out how they would be (re-)financed.[6] The priority sectors and requirements for investment are as follows: sustainable energy production; reducing energy consumption; sustainable industries and services; education and training; research and development; a modern transport infrastructure; low-emission cities and communities; and improving public administration efficiency. The DGB here, too, urges fair participation by all social groups in a better future.

Closing the investment gap could, according to estimates from the DIW,[7] lead over the medium term to significantly higher economic growth; in 2017 potential growth might be 0.6 per cent higher than would occur in a scenario of continuing low investment activity. Potential growth would be 1.6 per cent instead of around 1 per cent. Not only would that help to cut back sovereign debt but it would enable a stronger rise in incomes via higher labour productivity.

How can increased investment in both private and public sectors be stimulated and the investment gap closed over the medium term? The bulk of investment will come from companies and private households. If they only invested part of their money in Germany instead of, as in the past, sending it abroad, much would be gained – also for investors. The state must also take on another part of any new investment. It has the necessary room for manoeuvre, even with the debt brake. In 2013 and 2014 a small budget surplus was achieved for the first time, even with moderate economic growth. By 2017 these annual surpluses will rise to around 30 billion euros a year. Nevertheless, the federal government is still planning to cut sovereign debt faster than the fiscal pact prescribes, to 60 per cent of GDP. This simply throws away any scope for closing the investment gap.

German Federal Court of Auditors considers PPP-projects inefficient.

Public–private partnerships (PPPs) are often cited as an ideal solution for cash-strapped public exchequers. However, the Federal Audit Court has criticised many current PPP projects in Germany as »uneconomic«.[8] The yield expectations of institutional investors – for example, in the insurance sector – tend to be absolutely fanciful: full state risk-cover and 7 per cent returns. The legacy costs of PPPs are simply shoved into the future. This way, the state limits its room for manoeuvre not on an ad hoc basis but with uncertain risks well into the future.

4. Expert Commission's Report on Increasing Investment in Germany, Report Prepared by the Expert Commission on Behalf of the Federal Minister for Economic Affairs and Energy, Sigmar Gabriel, April 2015, English version http://www.bmwi.de/BMWi/Redaktion/PDF/I/investitions-kongress-report-gesamtbericht-englisch,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf.

5. Ibid, pp. 13–16.

6. Deutscher Gewerkschaftsbund, A Marshall Plan for Europe (English version). Proposal by the DGB for an economic stimulus, investment and development programme for Europe, http://www.dgb.de/repository/storage/d9715298-5590-11e2-8328-00188b4dc422/file/A-Marshall-Plan-for-Europe.pdf.

7. DIW, Wirtschaftliche Impulse für Europa, DIW Wochenbericht 27 (2014) (Economic impulses for Europe, DIW monthly report 27 (2014)).

8. Bundesrechnungshof, BWV Gutachten, Wirtschaftlichkeitsuntersuchungen bei Öffentlich Privaten Partnerschaften (ÖPP) im Bundesfernstraßenbau, Gutachten vom 24.09.2013, (Federal audit court report of 24 September 2013 on investigations into the economic viability of PPPs in motorway construction), https://www.bundesrechnungshof.de/de/veroeffentlichungen/gutachten-berichte-bwv/berichte/sammlung/2013-bwv-gutachten-wirtschaftlichkeitsuntersuchungen-bei-oeffentlich-privaten-partnerschaften-oepp-im-bundesfernstrassenbau.

An Investment Pact in Germany and Europe

On these grounds, public investment should be financed primarily through taxation. In order to share the costs fairly, existing tax privileges for very large capital assets, incomes and inheritances should be made retrospective again and the extra tax revenues used for public investment. This affects virtually all EU countries, in one way or another. Europe's wealthy must – like employees – pay their proper share of the costs of fighting the crisis and boosting their countries' prosperity. The first stage must be the eradication of European tax havens.

Europe's wealthy must – like employees – pay their commensurate share.

Given the unique low interest rate environment, credit financing would be the best way to modernise our infrastructure, indeed in the interests of future generations. Public borrowing is no longer building up debt but a »free lunch«. Commercial paper valid for six to 12 months and federal treasury warrants with a two-to five-year term currently earn negative interest; in other words, the federal government is paid for its extra borrowing. A five-year *Bund* has a nominal yield of just over 0 per cent, a ten-year one 0.6 per cent. Even the yield on 30-year bonds (around a nominal 1.4 per cent) costs less than its annual amortisation. The latter is, of course, only a book value but if one looks only at the level of gross investment, without taking into account the repair and replacement requirements or real decline in value (condition of roads, buildings, bridges, but also research funding, the population's level of education/training and so on), then public assets are in a perpetual state of disrepair. We therefore »consume« more public wealth each year if we cut back too much on spending. In 2014 alone the federal government could have borrowed 34.9 billion euros without even breaching the legal provisions of the debt brake. For 2015 it could be an estimated 18.6 billion euros, for 2016 17.8 billion euros and for 2017 13.1 billion euros.[9] What's more, it makes a lot of sense to put into practice the proposal of the government's official economic council (SVR) and remove public investment in infrastructure from the debt brake and/or fiscal pact.

In addition, and only when all these funding options have been exhausted, new financial instruments such as a public infrastructure fund should be set up. Furthermore, private financing should still not be substantially more expensive than direct loans from the state. Such an infrastructure-funding instrument must stay completely under public control and in public hands and be supplied with adequate equity, a state guarantee and its own income sources. The fund would issue bonds or other securities that could be placed via auction and acquired by institutional investors such as banks and insurers, but also by small retail investors/savers. Refinancing such loans – in other words, the due costs of interest and repayment – could take place either through future yields from the planned financial transactions tax or budget monies and consumer charges, such as tolls.

A combination of national and European, public and private investment is both sensible and desirable, especially for pan-European projects such as transport infrastructure, a European energy transition, digitalisation and the re-industrialisation of Europe. A 20 per cent share of the economy for manufacturing should be declared the core element of the European Fund for Strategic Investments (EFSI) proposed in the Juncker plan. That would raise the ability of the European economy to withstand crises. But the EFSI must, if such a plan is to work, be set up on a permanent basis and not just for three years and it should be provided with more equity and income sources. Moreover, it should be capable of directly undertaking European investments and, with the aid of investment allowances and direct loans, helping companies to bring their plant, equipment and buildings up to date. The expansion of the EFSI into a powerful European agency for investment and modernisation would also help to release forces of growth in Europe and lead us away from the path of recession and stagnation.

The EFSI must be set up on a permanent basis, with more equity and income sources.

In parallel with this, a national public infrastructure fund should perform the same functions nationally and adopt the same funding/refinancing mechanisms. This fund could, on the one hand, directly finance investments across the country and, on the other, give financial aid to local councils that wish to renew their infrastructure and economy on favourable terms. To ensure a targeted use of public monies for infrastructure investments, it would make sense to examine the case for a budgetary obligation to make public investment up to a defined level, compensating at least for the depreciation of public assets. Such a self-imposed binding commitment from the

9. Bundesfinanzministerium, Monatsbericht März 2015 (March 2015 monthly report), https://www.bundesfinanzministerium.de/Content/DE/Monatsberichte/2015/03/Downloads/monatsbericht_2015_03_deutsch.pdf?__blob=publicationFile&v=2.

public sector should not, however, come at the cost of public sector employment or sovereign duties or other public expenditures.

With the setting up of long-lasting public infrastructure funds a new fiscal facility for investing in the future in Europe and Germany would come into being on top of classic fiscal measures. This has to happen on a permanent basis because the debt brake and the fiscal pact are also planned in perpetuity. A permanent public investment agency would indeed fill the demand gap on capital markets and take over the funding of public investments. It could thus be built up as an open public fund that issues securities and bonds and thereby offers investment opportunities for both institutional and retail investors. This would be a win/win situation for both sides, because the lack of investment in the one is the funding source for the other.

Finally, the entrepreneurial state should intervene actively through the creation of public enterprises to counteract the flawed wave of privatisations. Unlike the legacy costs involved with PPPs this is an effective way of getting round the debt brake. Public enterprises must, of course, be competitive, but the state is not inevitably a worse entrepreneur than the private sector. Decent commercial management can avoid recourse to banned measures, such as cross-subsidies.

Removing Increasing Imbalances from the Capital Market

In reaction to the substantial losses that have been incurred by foreign investments in recent years there is an increasing readiness on the part of private investors to seek many more investment opportunities in Germany. This is leading to a huge over-supply of capital in Germany, while, at the same time, there is an inadequate demand for capital, namely credit.

The prolonged crisis since 2008 has further strengthened a basic tendency of unfettered finance capitalism: the evaporation of real-terms investment and the current liquidity trap of the real economy in Europe comes with, on the other side of the coin, massive excess liquidity. The development of net fixed assets illustrates this. While in 2000 such assets amounted to just under 12 trillion euros in the euro zone, by the middle of 2013 they had almost doubled, to more than 22 trillion euros. For the European Union as a whole the volume of net fixed assets stood at more than 31 trillion euros or almost two-and-a-half times EU GDP. There is thus a surplus of private capital, as Table 1 shows:

How to make best use of the growing liquidity for investments.

There was no debt brake or fiscal pact in the economic rule-book of classic fiscal policy. Furthermore, besides problems for investment, the debt brake brings another macroeconomic problem in its wake; this is tied up with the removal of the state as an important debtor on the market and causes an imbalance between the supply of capital and demand for credit (Figure 3). This is happening in the context of a dynamic asset market in which liquidity is growing on an annual basis by 6 to 10 per cent. There is thus a demand gap that cannot be compensated for by private households or companies. On one hand, because many firms and private households are also saving and, on the other hand, because many households, due to their low income, or firms with unstable prospects of turnover and profit are not solvent enough and thereby are uncreditworthy.

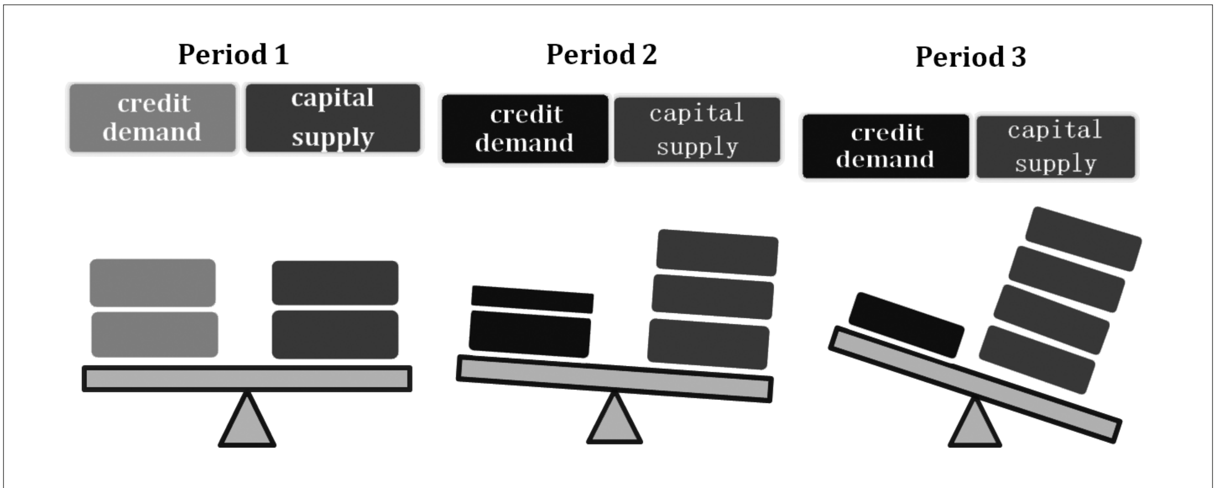
This trend will continue irrespective of the state of the economic environment. The question is, how to make good use of this growing liquidity for investments and future projects? If politicians fail to mobilise this capital we are faced with two scenarios. Already we can observe how inadequate demand is leading to false allocations. There is an increasing demand for assets and shares, but the rise in share values scarcely matches the actual profit margins of companies. In this scenario share markets are more and more divorced from the real economy. One consequence is new bubbles on equity markets. Then it is only a question of time before the flight from securities begins and when, where and at what price these bubbles burst. In the second scenario, European and German capital increasingly shifts to other dynamic markets because of the lack of investment opportunities here. Well-invested over there, it thus contributes to growth and employment in other countries, although the German economy urgently requires it for its own forward-looking investments. Both scenarios endanger the stability of our economies. A permanent public infrastructure fund would actively counteract these threats. A new public fiscal agency for future investment in Europe and Germany can thus help to dampen volatility on financial markets and divert richly available private capital into sustainable future investments.

Table 1: Private Fixed Assets, Euro Zone (mid-2013)

	Code	Financial assets (€ million)	Private debt (€ million)	Net financial assets (€ million)
Austria	AT	918,539.99	–298,701.66	619,838.34
Belgium	BE	1,807,617.82	–383,276.25	1,424,341.57
Cyprus	CY	84.18	–54.33	29.85
Germany	DE	8,811,256.35	–2,790,407.73	6,020,848.62
Estonia	EE	33,230.60	–15,542.84	17,687.76
Greece	EL	504,096.96	–236,026.18	268,070.78
Spain	ES	3,147,694.57	–1,583,591.54	1,564,103.03
Finland	FI	390,843.54	–238,201.96	152,641.58
France	FR	7,633,279.70	–2,507,936.54	5,125,343.15
Ireland	IE	581,673.36	–336,674.49	244,998.86
Italy	IT	6,293,154.92	–1,680,773.92	4,612,381.00
Luxemburg	LU	100.82	–44.44	56.38
Latvia	LV	32,268.93	–14,349.25	17,919.68
Malta	MT	29.92	–9.87	20.05
Netherlands	NL	3,331,635.72	–1,551,651.97	1,779,983.76
Portugal	PT	674,871.58	–290,652.73	384,218.86
Slovenia	SI	65,633.33	–22,230.79	43,402.54
Slovakia	SK	88,477.64	–41,401.10	47,076.54
Euro Area	**EA18**	**34,314,489.93**	**–11,991,527.60**	**22,322,962.34**
EU	**EU28**	**48,047,443.71**	**–17,025,140.53**	**31,022,303.18**

Source: Eurostat, Credit Suisse, author's calculations.

Figure 3: Debt Brake Intensifies the Imbalance on the Capital Market



Appendix

ETUC Declaration on the EU-level Investment Plan

Adopted at the Meeting of the Executive Committee on 2–3 December 2014

Investment for sustainable growth and decent jobs is a long-standing ETUC demand. The ETUC therefore welcomes the EU focus on investment and concrete initiatives contributing to this end and, in particular, the recent initiative towards an EU-level investment plan.

Indeed we urgently need actions to provide high employment, decent work, high competitiveness and innovation through public and private investment. With more than five million young unemployed, quality jobs creation is a vital issue for the well-being of younger generations. Prosperity underpins high income in the public and private sectors. Therefore the Juncker plan must prioritise investment, which creates jobs and focuses especially on countries with serious unemployment problems.

However, investments alone are not going to trigger growth. A policy to increase demand, and therefore wages, is indispensable, in parallel with an investment policy, since the investment deficit in Europe is largely linked to the lack of demand.

The ETUC is concerned that the size of the Commission's investment plan is insufficient to meet the needs. Indeed, the investment deficit in the EU, in recent years, ranged from 280 to 515 billon euros during the worst part of the crisis. Therefore it is difficult to see how an investment plan of 315 billion euros over three years could be strong enough to trigger a U-turn in the European economy.

The ETUC plan is much more ambitious, calling for 2 per cent of EU GDP per year for ten years. A plan of that dimension is indispensable to lay the foundations for sustainable reindustrialisation of the EU, and to generate up to eleven million new jobs.

We are equally concerned about the feasibility of the Commission's plan. The leverage ratio of 15 is based on returns from only the very safest investment. This could rule out any investment at all in much of Europe, limiting the impact to the countries already in the least difficulty. For the plan to reach even the level of investment it is targeting, it needs significantly more resources committed to the fund by the EU and Member States.

The ETUC calls for adequate democratic governance of the investment plan, and for the inclusion of social indicators in the selection criteria. Social partners at national level should participate in the selection of projects submitted for financing. The ETUC should be involved in the work of the European task force to ensure that the focus of investment is on the sustainable reindustrialisation of Europe, supporting decent jobs and good services.

Finally, we are concerned that the Commission's plan focuses on neoliberal structural reforms, and furthermore could force governments into risky public-private partnerships, with taxpayers liable in the event of losses. We believe that Europe needs more social investment that should be excluded from the calculation of the public deficit.

The ETUC calls on EU institutions and Member States to support strong action on investment. Workers and citizens are expecting tangible results from Europe.

References

https://www.etuc.org/documents/etuc-declaration-eu-level-investment-plan#.VeBPClJy55U

Imprint

Friedrich-Ebert-Stiftung | Division for International Dialogue
Hiroshimastr. 28 | 10785 Berlin | Germany

Responsible:
Jörg Bergstermann, Coordinator for Trade Union Programs in Europe and North America

Phone: +49-30-269-35-7744 | Fax: +49-30-269-35-9250
http://www.fes.de/international/moe

To order publications:
info.moe@fes.de

ISBN
978-3-95861-260-0