RE-InVEST Policy Brief 1

The Juncker Investment Plan: where are the social investments?

website: **www.re-invest.eu**
contact: **info@re-invest.eu**

author(s): **Michel Debruyne**

ABSTRACT

The Juncker Investment Plan (JIP) is the Commission's response to the urgent demands for growth. Growth is regarded as a counterpart of the austerity measures. Consequently, the Commission has set up 'an ambitious program of jobs, growth and investment".

The JIP intends to mobilise up to EUR 300 billion in additional public and private investment into the real economy over the next three years. The focus of this additional investment should be in the areas of infrastructure, notably broadband and energy networks, as well as transport infrastructure in industrial centres; education, research and innovation; and renewable energy and energy efficiency[1].

Policy brief 1 presents our analysis of this ambitious program. We begin with analysing the illustrative project list attached to the recent Communication issued by the Commission, 'An Investment Plan for Europe'. This project list, developed by an Independent Investment Committee, provides the member states with the information on potential areas the Commission intends to subsidise. Given that the investment plan is not yet finalized, the observations offered in this policy brief are provisional.

A genuine investment boost is obviously welcome for the recovery of Europe's economy. Since the year 2000, there has been a dramatic decline of investment in Europe, especially in the southern countries of the EU.

However, our analyses demonstrate that:

- Firstly, there is a serious risk that the JIP will result in widening the gap between the 'good'-performing countries and the rest of Europe.
- Secondly, the proposed plan does not adequately meet the needs of the different countries affected by the crisis.
- Thirdly, the share of social investment in the JIP is marginal, suggesting a missed opportunity to enhance the livelihood of vulnerable populations.

A more balanced investment plan is thus needed. We suggest a number of criteria for adjusting the current investment plan:

- Any such plan will need to be rooted in a democratic discussion with all concerned parties from the social, civil and parliamentary field, at every conceivable level. One of the salient features of the current JIP is its technocratic nature. The crisis and its remedies seem to have triggered technocratic processes that have once again bypassed the democratic decision-making process
- Any such plan must focus on reducing the gap between the triple-A countries and the countries under budgetary stress.
- Any such plan must focus on repairing the social damage of the crisis. It must also boost social investment and focus on empowering vulnerable people.

If the JIP is to offer hope to the European people, it will first need to invest in our democracies.

[1] European Commission (2015) REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013, Strasbourg, 13.1.2015. COM(2015) 10 final 2015/0009 (COD). More can be found on http://ec.europa.eu/priorities/jobs-growth-investment/plan/documents/index_en.htm

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RE-InVEST
REBUILDING AN INCLUSIVE, VALUE-BASED EUROPE OF SOLIDARITY AND TRUST THROUGH SOCIAL INVESTMENTS

1. Why are investments important?

The new European Commission made a strong commitment at the start:

"My first priority as Commission President will be to strengthen Europe's competitiveness and to stimulate investment for the purpose of job creation." (European Commission 2014: 3)

“As a consequence of the economic and financial crisis, the level of investment in the EU has dropped by about 15% since its peak in 2007. The current level is well below what historical trends would imply, and – in the absence of action – projections point towards an only partial rebound over the coming years. Economic recovery, job creation, long-term growth and competitiveness are being hampered as a result. This investment gap poses risks to reaching the targets set by the Europe 2020 Strategy.” (European Commission 2015)[2]

Investments play a critical role in the recovery of European economy. Improving investment activity is crucial for three main reasons. Firstly, investment feeds into aggregate demand, therefore, higher investment activity leads to a greater demand higher economic activity and to an increase in the overall employment level. Secondly, improving investment activity is crucial to renewing and transforming economies’ real capital stock, thus enabling firms to take advantage of new opportunities, expand and hire new employees. Finally, investment is crucial for restoring competitiveness imbalances[3].

Figure 1 shows a strong correlation between unemployment rate (solid) and investment.

Fig 1 Investment as percentage of GDP and unemployment rates in EU-28, 1995-2013, ILO 2015, pag 9

[2] European Commission (2015) REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Fund for Strategic Investments and amending Regulations (EU), see footnote 1

[3] An employment-oriented investment strategy for Europe, International labour Organization, Research Department, 2015 http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_338674.pdf

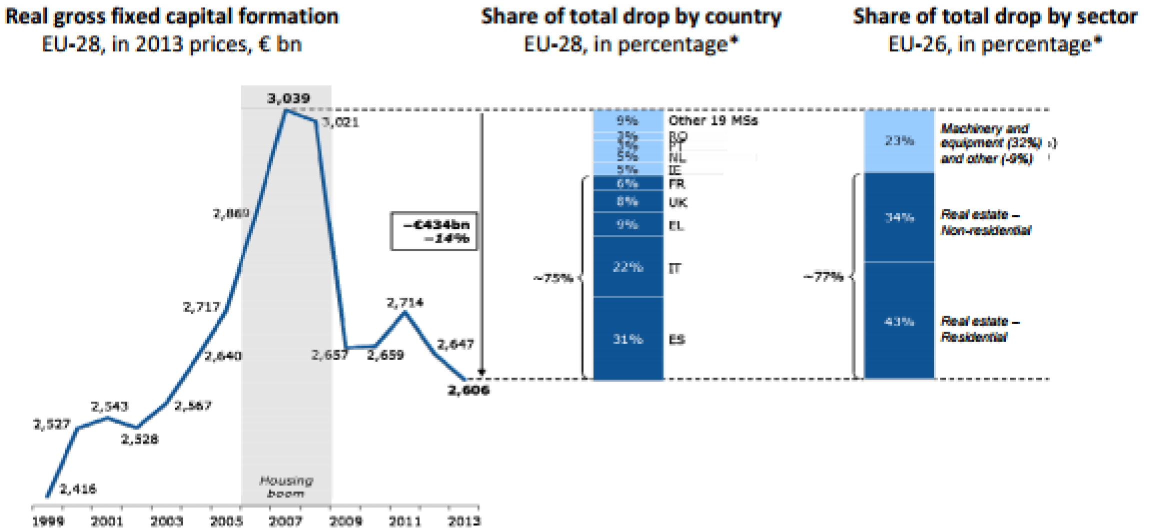

Fig 2 Drop in investment in EU-28 and EU-26 European Commission 2014

Figure 2[4] shows the drop in investment for the EU compared to the 2007 peak, "investments have dropped by around € 430 billion. Five Member States (France, the United Kingdom, Greece, Italy and Spain) account for around 75% of the drop, owing to the size of their economy or the sheer magnitude of the investment drop, or both".

When introducing the Europe 2020 Competitive Report five months before the launch of the JIP, Catherine Day, the Secretary General of the European Commission, stated that "(we) need to try to bridge the gap between the core and the periphery, between the Triple A countries and those that are emerging from (bailout) programs".[5] Does the JIP provide an adequate answer to this gap?

2. Investments need discussions

At present, the project list is in a draft form representing a commitment of the European Commission. This first draft has been drawn up by an 'Independent Investment Committee' and the European Commission has invited the member states to submit projects to the Commission.

At the end of 2014 the Commission "received more than 2,000 projects across the EU, worth some €1.3 trillion of potential investments, out of which over €500 billion worth of projects could potentially be implemented over the next three years. These projects range from building a new terminal at Helsinki airport to upgrading flood defenses in Great Britain and improving the energy efficiency of public buildings in France" [6].

The member states were asked to answer a list of questions from the European Investment Bank which has taken the lead in the implementation of the JIP. Question 4 asked for concrete projects:
"*Please identify a list of key investment projects in your country that are economically viable and whose implementation could start before 2018, but that cannot easily be realized now. Please indicate the following:*
(a) total investment cost of each project;
(b) investment expected during 2015-17 and overall timeline;
(c) the current status of project preparation and whether it is already included in any national investment plans; and,
(d) the main barriers that currently stand in the way of implementing these projects (e.g., lack of public and/or private financing, regulatory barriers, slow project preparation, etc.)"

The Investment Committee has selected a number of projects resulting in the indicative project list. The Committee used the following five project selection criteria:

[4] European Commission. Factsheet 1. Why does the EU need an investment plan? 2015 http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/factsheet1-why_en.pdf
[5] Catherine Day as quoted in: Euractiv 10.6.2015
[6] This and following citations are from http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/special-task-force-report-on-investment-in-the-eu_en.pdf

Key criteria:
- The projects' EU value-added (i.e. projects in support of EU objectives),
- Their economic viability (or "value"), prioritizing projects with high socio-economic returns,
- A reasonable expectation that projects can start within the next three years (i.e. capital expenditure incurred in the 2015-17 period).

Additional criteria (to be considered flexibly):
- The projects' potential for leverage of other sources of funding,
- Their size and scalability (e.g. the possibility to bundle smaller investments)

The list contains primarily large investment projects undertaken by the public sector and large corporations.. Small- and medium-sized companies (SMEs) and Mid-caps accounting for two-thirds of private sector employment and great number of the new jobs created are largely absent from the project list (dixit the factsheet).

Can this omission be a result of the lack of public discussion about the criteria for the projects? Can the minutes of the Independent Investment Committee give us more information on the deliberation? Are these minutes accessible?

A public discussion has not been organized about the kind of growth we need, which countries need extra investments, the type of investments needed, etc. What is needed is a public discussion about the alternative solutions to the proposed project list.

3. The indicative project list: an analysis

3.1 The distribution of the budget

The project list contains more than 700 projects distributed over the EU-member states. The well-performing western countries (Anglo-Saxon, core EU-countries, including Italy and the northern countries) would get 132,000 million euros; the north eastern countries (Poland, the Czech Republic, Hungary, Slovakia and Latvia) would get 72,500 million; the south-eastern countries (Romania, Bulgaria, Croatia) would get 10,000 million. Finally, the southern countries (Greece, Portugal, Cyprus and Spain) would get 15,500 million.

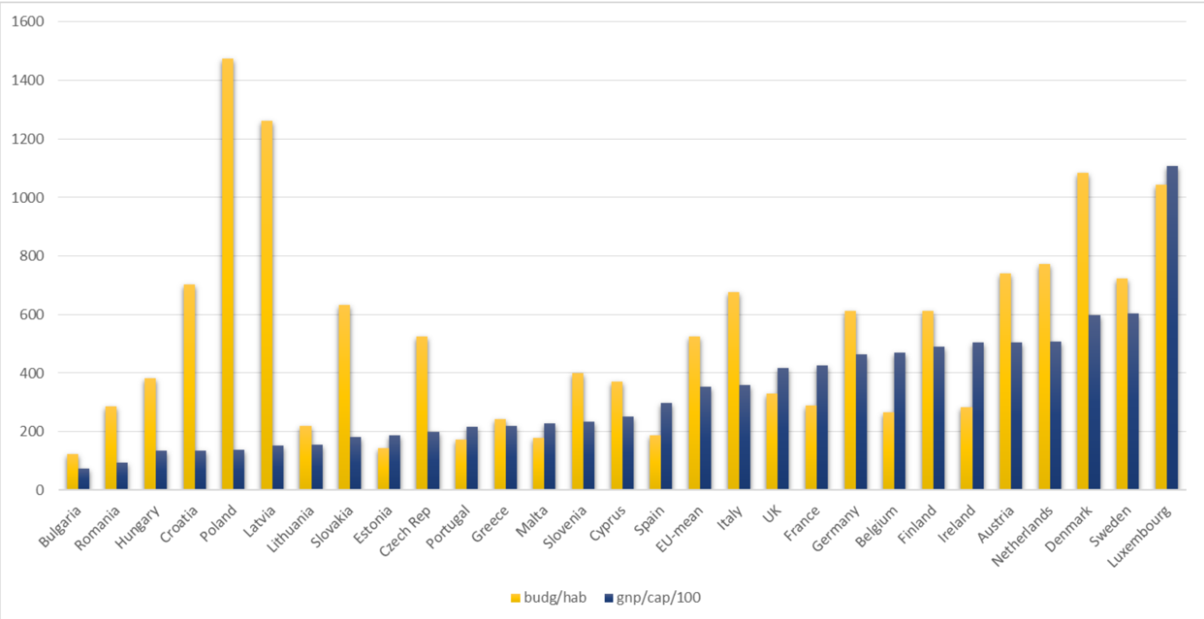

Fig 3 Comparison of the JIP-budget/capita per country and GNP/capita/100

From Figure 3[7] it is possible to discern four groups of countries. The first is the East-European countries, which will receive a lot of investment. Are these projects on the list of the Cohesion funds and are they re-listed? In contrast, the countries under budgetary stress receive little funds in the proposed JIP. The third group of

[7] Figure 3 is created by M. Debruyne, RE-InVEST, using the indicative project list as the basis for the calculations.

countries (France, Belgium and the UK) receive less funds compared with the rest the northern countries, The Netherlands and Germany, will receive more. In short, Figure 3 demonstrates that the wealthier countries of the core and the well-developed eastern countries get relatively more investment than the other countries.

If the JIP is expected to bridge the gap between the wealthy countries and the countries under stress, then we should observe a fair redistribution.

3.2 Bridging the gap?

The objective of the JIP is clear: the program's objective is among other things to achieve more convergence between the European countries.

If the objective is to eliminate the differences then it is necessary to invest in the regions where economic growth and employment remain below average. The suggested proposal, however, will increase the differences rather than eliminate them. Consequently, the JIP will widen the gap between triple A countries and the rest of Europe.

Figure 4 analyses the distribution of the EIB funding to the countries with low unemployment and high unemployment[8].

Since 2007 redistribution is not a key element of the EU policy. Instead, during the crisis the EU policy has resulted in widening of the existing income gap.

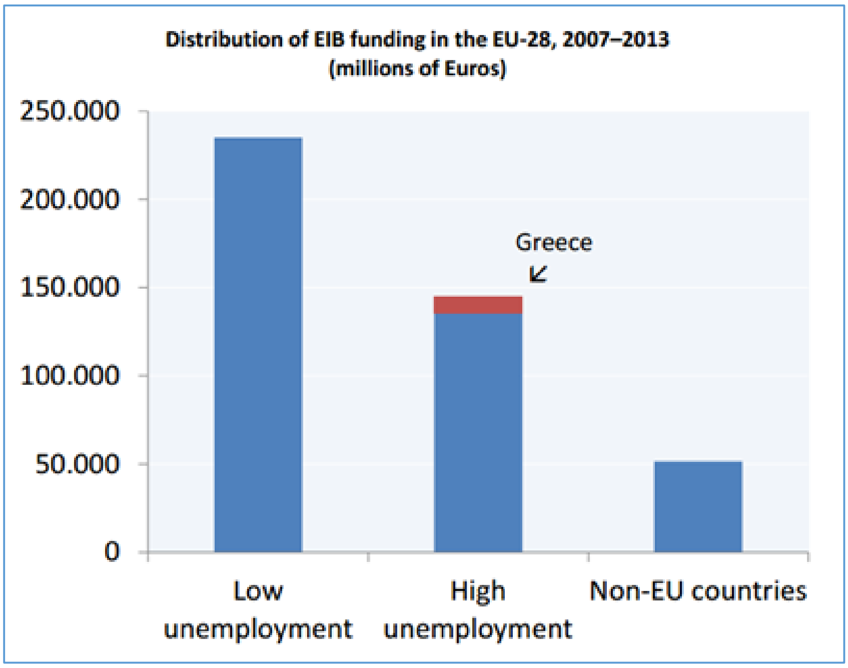

Fig 4 Distribution of EIB funding in the EU-28, 2007-2013. ILO, 2015

[8] An employment-oriented investment strategy for Europe, International labour Organization, Research Department, 2015

3.3 Are social investments forgotten?

A further analysis of the indicative project list reveals a second imbalance between projects. Figure 5 shows the distribution of the budget over the 5 thematic groups: digital, energy, transport, social infrastructure and environment[9].

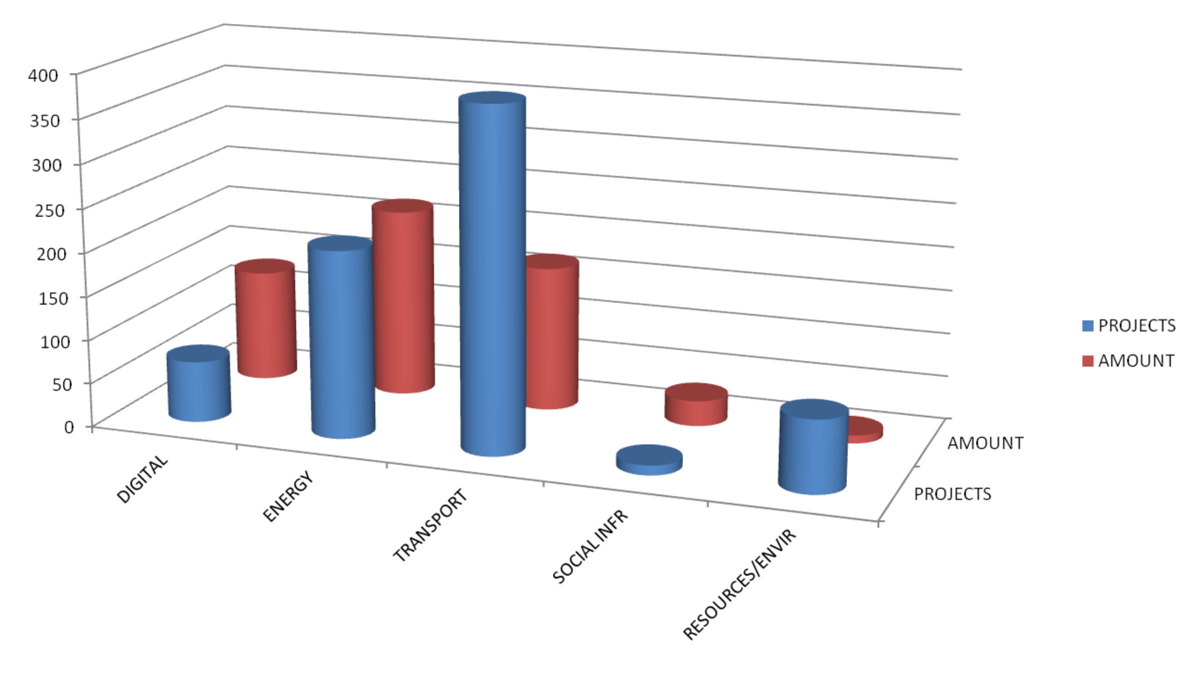

Fig 5 Distribution of the budget over the five thematic groups

The indicative program appears to focus primarily on infrastructure and energy projects. Almost 340 projects for a total amount of 150 billion euro concern transport investments; there are 250 energy projects totalling 150 billion euros and 100 billion euros have been allocated to 40 digital projects. There are almost no social infrastructure projects. Admittedly, there are a lot of environmental projects, but there is no investment in environmental protection as such.

A closer analysis of the graph reveals that most of the transport investments include investments in motorways, in public transport and in waterway infrastructure. The digital investments also represent infrastructure projects (networks). In addition, the energy investments are similarly infrastructure investments (offshore infrastructure). To a large extent, the JIP boils down to an infrastructure plan. In some countries where infrastructure is found to be lacking (Romania), infrastructure may indeed be necessary. But what about the other countries?

Aren't there any other investments that are (at least) equally essential? Why are there almost no social infrastructure projects?

The crisis has severely hit the social infrastructure in many countries: since the crisis there is less investment in schools, care infrastructure, etc. The indicative program could offer the perfect answer to these disinvestments.

Analysing the indicative project list further, it becomes obvious that there was a kind of co-ordination between neighbouring countries. The energy projects from Poland, Latvia, Germany and The Netherlands have been designed together. This collaboration is inspiring. Why couldn't there be some co-operation between the northern countries and the countries under stress: an investment from the north into the south? This kind of co-ordination and co-operation would reduce the gap between the different member states.

[9] This graph is made by M. Debruyne, RE-InVEST and used the indicative project list as basis for the calculations

3.4 A contrast with other investment plans

The ILO Research Department has compared the JIP with the USA Recovery and Reinvestment Act and the Japanese Stimulus Plan. Table 1 summarizes the differences between the three investment plans.[10]

	EU Investment Plan	US Recovery and Reinvestment Act	Japan Stimulus Plan
Size as a % of GDP	2.4%	7.3%	3.8%
Duration	2015-2018	2009-2019	2013-2016
Target job creation	✓	✓	✗
Target vulnerable groups	✗	✓	✓
Monitoring during implementation	?	✓	✓
Impact evaluation planned	?	✓	?

Table 1 A comparison between the investment plans of EU, US and Japan. ILO, 2015

The differences between the three plans are striking. The EU Investment Plan does not target vulnerable people while the other two plans explicitly have this objective..

In addition, no plans to monitor and evaluate the results of the project are foreseen. How will the success of the JIP be measured?

The JIP does not target vulnerable groups or vulnerable countries. It is not a redistributive plan. The JIP overlooks the essence of the crisis and the problem of the imbalance between different countries in Europe.

The answer lies in the fact that the JIP has no explicit redistribution objective. It assumes that an investment led growth will reduce poverty through a 'trickle down' effect. The essence of 'trickle down' is that growth in the economy will increase the demand for labour of the poor. But it is quite possible that growth would come more from increased productivity than more employment. A fact that has been observed in several European countries during the modest growth since the crisis (ILO, 2015).

Even an increase in employment does not mean secure jobs and a living wage. High unemployment and deregulated labour markets have led to precarious employment conditions and contracts and low wages increasing the number of the working poor. Finally, in the short run the poor may well not be employed in the targeted industries because of their lack of skills. It is imperative that the investment plan is combined with a social support programmes to help the poor and vulnerable, especially in the Southern European crisis countries.

The EU citizens should be sceptical about the positive effects of the JIP on reducing the gap between wealthy and poor countries. In its current state, the JIP may increase the existing disparities between countries. The positive effects of the proposed investments are unclear.

The question is, what kind of investments do EU citizens actually need?

[10] An Employment-oriented Investment Strategy for Europe, by Steven Tobin. ILO Research Department. Presentation on the conference of ETUI 20th March 2015, Brussels. http://www.etui.org/Events/Europe-s-dilemma-austerity-revisited-or-a-new-path-for-sustainable-growth

4. Another type of investment

Based on our provisory observations we conclude that the proposed investment program does not counter countering the social damage done by the crisis. Moreover, it may result in a more divided Europe. Therefore, we need an alternative investment agenda. This agenda is based on three principles:

First, the convergence should become a priority. Therefore, the JIP plan must focus on investing in the countries that are encountering difficulties.

Secondly, the investments must be targeted to the most vulnerable people because they have been profoundly affected the crisis. This means investments should address the social damages of the crisis.

Thirdly, the literature about the economic costs and benefits of various types of social investment – such as the fight against child poverty, education, health care – has convincingly demonstrated that such investments have rates of return that often outscore more traditional types of investment, while, at the same time, improving the social welfare of the population.

So, another investment program would focus on:

- investment in social and educational structures
- investment in locally and regionally based development and in SMEs
- investment in concrete projects which bring forth (new) resources for local people
- investment in empowering people by creating leeway for cooperatives at the communal and regional level
- investment in co-operation and co-ordination between the member states

RE-InVEST aims to investigate how the empowerment of (vulnerable) people via social investment may contribute to the objectives of the JIP. In following policy briefs we will further explore the power of social investment to empower and the necessary conditions.

5. Final conclusions

The above analyses point to a number of paradoxes:

- In the first place, the JIP may well widen the gap between the 'good' performing countries and the other countries.
- Secondly, the plan does not meet the needs of the different countries and does not provide remedies for the damages caused by the crisis.
- Thirdly, the JIP is not a social investment plan: social investments seem to be underrepresented.

An adjusted investment plan is needed. Such a plan should be anchored in a democratic discussion with social, civil and parliamentary partners, at every conceivable level. However, it clearly appears that the JIP plan is a technocratic plan. One of the obvious consequences of the crisis and of the proposed remedies, is the growth of technocratic processes and the diminished importance of democratic values in the decision-making processes. If the JIP plan wants to offer hope to the European people, it will have to also invest in our democracies.

A public discussion is needed if we want the European people to believe once again in Europe and in the solutions that Europe offers. A public discussion provides the necessary scaffolding for any such solution, because there is always an alternative. Also for investments.

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