

## The Juncker Plan: From €21 to €315 billion, through smoke and mirrors

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What is the precise problem to be solved by the 'Juncker plan'? It is the 'investment gap', which is estimated by the European Commission to be around €300 billion.<sup>1</sup> On the face of it, the €315 billion euro announced by Juncker as additional investment, even if distributed over three years, *should* make a material difference.

However, we should also be careful not to compare apples with oranges, or rather pumpkins with oranges, in this case. Total investment constitutes the pumpkin, which amounts to about €2,600 billion per annum for the EU28. But the Juncker plan mainly targets infrastructure investment, which is comparable to an orange because it accounts for only about 10% of all investment (the remaining 90% is private) and runs to about €260 billion per annum. If the aim of the Juncker plan is to increase public investment by €315 billion over three years we should see infrastructure spending increase by €100 billion per annum, or almost 40% above its present level. This would appear to be wishful thinking, however, because all large projects require years of planning and the main obstacles are not usually financing but the 'NIMBY' complex, in all its various forms.

As Gros (2014) showed recently, the investment gap is mainly a product of flawed thinking that neglects the impact of Europe's demographic slowdown on the amount of investment that is required to keep a shrinking economy going. Moreover, a large part of the investment during the boom years up to 2007 was in wasteful construction, which should not serve as the benchmark for what level of investment is desirable today.<sup>2</sup>

But even if we concede the point that more investment is desirable it is difficult to see how the Juncker plan could actually make a material difference.

As President Juncker himself recognised at the beginning of his speech to the European Parliament, at present there is no shortage of funding available in the EU. The countries in the periphery of the euro area in which credit might still be scarce account for less than one-quarter of Europe's economy. A lack of funding is thus not the reason that investment

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<sup>1</sup> See ([http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/factsheet1-why\\_en.pdf](http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/factsheet1-why_en.pdf)).

<sup>2</sup> Daniel Gros (2014), "Investment as the key to recovery in the euro area?", CEPS Policy Brief No. 326 (<http://www.ceps.eu/node/9821>).

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remains weak in an economy where the banking system already has capital of over €1,000 billion euro and outstanding loans of more than one hundred times that amount. Under these conditions, it is highly unlikely that €21 billion in loan guarantees could make a difference. The problem is thus presented as a *risk* issue. Yet risk is only part of the story, in particular for many of the key infrastructure projects that are blocked by national political and regulatory barriers. With the exception of funding for large innovative projects and innovative high-risk SMEs, the remaining areas of intervention cannot be solved by risk guarantees without fundamental structural reforms at national level. Education, for example, is not an area where one could use leveraged private sector funding.

The origins of the €21 billion on which the entire plan is to be constructed are somewhat obscure. Five billion euros are supposed to come from the European Investment Bank (EIB), but it is not clear in what form. If it is in the form of capital then one might as well increase the capital of the EIB, but this does not seem to be on the cards.

This leaves €16 billion, supposedly to come from the EU budget. But given that no increase in the EU budget has been proposed there can be no fresh money from this source; only a re-arrangement of existing budget lines. Upon closer inspection it turns out that these €16 billion consist of €8 billion in guarantees (already foreseen) and only €8 billion in 'real money'. And this €8 billion of 'real money' are to a large extent made up of cuts in the funding for research and money already foreseen for financial instruments in the Connecting Europe Facility (CEF), which perform exactly the same operations and with a similar multiplier effect. There is no new money and no reallocations from EU budget programmes of doubtful usefulness for a modern economy (such as agriculture) that could at least have given some hope of a structural change in the EU budget.

The remainder of the €21 billion would come from the €5 billion contribution (presumably of existing capital) from the EIB, which should then be levered up to €75 billion in loans to SMEs. Again, this is mostly fiction. The EIB has a staff of about 2,000 who manage about 2,000 projects (one project per person). The average size of the EIB loans is around €70 to €100 million. It is thus clear that the EIB cannot reach SMEs directly. The EIB therefore provides groups of private commercial banks with a package of financing, leaving the banks to select the SMEs that receive credit with a small reduction in the interest rate and a small loss in participation by the EIB. There is a high risk that the commercial banks use this EIB financing for their favourite customers, to whom they were giving loans anyway.

Moreover, it is difficult to see why the EIB would be an efficient vehicle to improve the availability of credit to SMEs while a number of national development banks in member states pursue the same goals and have the capacity to operate such programmes. Most SMEs operate mostly in the domestic market anyway, which implies that there is no particular reason for intervention by an EU institution if it is not focused on specific regions where this is necessary.

All in all, the Juncker plan appears to be a rather desperate attempt to create the impression of a financing package of over €300 billion, but without actually having any margin of manoeuvre in the budget. This package looks a lot like the €120 billion package of the 'Growth Initiative' that was announced amid much fanfare two years ago. Then, as today, most of the funding came from a re-allocation of budget lines, coupled with hopes of private-sector participation. Very little of the €120 billion has been spent two years down the line. It is difficult to see why this time should be any different.

Big promises are politically attractive because they show that Brussels 'cares' and is taking the growth problem seriously. But in the long run the political price of empty promises is high.

There are, of course, large-scale projects that do make sense, such as cross-border interconnectors for electricity and gas. But the real obstacle to the integration of energy markets in Europe is not financing (large utilities can finance themselves anyway at very low rates), but the oligopolistic structure of the (national) markets, coupled with the tendency of member states to support their national champions. This is where the EU could do something useful, but there is no prospect of significant movement on this front. A courageous European Commission would have told member states that a financing package only makes sense if concrete steps towards an integrated energy market are accepted by member states.

On balance, this European investment plan seems to consist mostly of a bundling of existing financial instruments into one package. Experience has shown that this repackaging yields little, apart from short-lived media attention.