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THE JUNCKER PLAN: A TURNING POINT, BUT NOT ENOUGH

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A change of attitude has recently emerged regarding the policy choices to be adopted for addressing the European crisis. Supply side reforms are considered unavoidable, but nevertheless insufficient. While the goals of fiscal consolidation and labour market reform are recognised as important in the medium term, what appears as urgently needed is a demand-side policy to counter falling domestic demand for consumption and to encourage investment. Up to now monetary policy has been the only instrument available to provide the necessary liquidity to the market, and the latest decision of the European Central Bank to make a monthly purchase through the secondary market of up to 60 billion euro-denominated investment-grade securities issued by euro area governments and agencies and European institutions has again proved the important role played by the only institution of a federal nature tasked with economic policy within the euro area.

The adoption of the Juncker Plan is a turning point, showing that the prevailing point of view in the new Commission is that a fiscal shock for supporting investment demand is needed to complement the efforts of the ECB. The Commission will conclude an agreement with the European Investment Bank (EIB) on the establishment of a European Fund for Strategic Investments (EFSI) and the Union will provide €16 billion to the EIB in order to conduct its financing and investment operations. The financial resources required will be found by reducing other appropriations within the existing European budget. This does not seem the best path to follow. There are two main flaws in the plan: firstly there is no additional public money on the table and, secondly, there is a problem of governance since the choice of investments and the distribution of benefits among Member States is not a technical issue but requires a political choice that cannot be assigned to the EIB.

An effective growth plan implies that new taxes are collected and, on this basis, eurobonds are emitted. In this way large sums of money could be made available to finance not only investments to complete the infrastructural network within Europe, but also to provide European public goods (*in primis*, expenditures on R&D and in promotion of higher education), in order to kick off a structural change in the European economy, strengthening the competitiveness of European firms and improving the quality of life of European citizens. The decisive challenge is to provide “adequate fiscal capacity” to the eurozone, as was proposed in a previous Blueprint by the European Commission: defining the resources that can be collected from taxpayers, allocating these resources within the budget to a Fund for Growth and Employment appointed to the eurozone countries, and deciding at the same time to transfer responsibility for directly managing a growth plan to the Commission, under the control of the European Parliament.

According to current debate, the tax considered eligible for providing a new resource to the European budget is the Financial Transaction Tax, and 11 countries in the eurozone have already decided to proceed with Enhanced Cooperation given the difficulty of achieving Union-wide agreement. But up to now no agreement has been reached with regard to the application of the issuance or residence principle and the taxation of transactions in derivatives. Even if the rate of this tax is fixed very low in order not to hinder the growth of the European financial market, the resulting revenues would be largely sufficient to guarantee the emission of bonds with an adequate leverage to collect at least 100-150 billion every year. But since the FTT is a national tax, a political decision has to be taken to assign part of the revenue to the European budget.

According to the Juncker plan the EFSI should be set up within the EIB as a dedicated trust fund. But if part of the FTT revenue is allotted to financing a Fund managed by the Commission, since Member States should be involved to guarantee cooperation between European and national levels, the Economic Directorate within the Commission should be expanded to include high representatives of the Treasuries of the Member States in an extended Directorate that could be called the European Fiscal Institute – as was done with the European Monetary Institute when creating the European Central Bank – and will represent the first step towards a European Treasury.

Two problems remain to be considered. *The perimeter of the Plan*: the Juncker Plan includes the whole Union. In our opinion the growth plan should initially only involve the 11 countries in the Enhanced Cooperation, although it is possible to predict that all the other countries of the eurozone will rapidly join. The first step towards an effective growth plan is envisaged here as an initiative of a "core" group of countries, and thus the underlying idea is the "Kern Europa" of the Lamers-Schaüble proposal in 1994. *The problem of time*: in the next few months an agreement is likely to be reached about the structure of the FTT when the European Council will decide to assign part of the revenue to an ad-hoc Fund within the European budget to finance the investment plan. The announcement's effect will be largely immediately, strengthening the expansionary impact of the ECB's Quantitative Easing, and according to the Commission's proposal the FTT should be implemented at the latest by the beginning of 2016.

However, given the harshness of the economic downturn and the ensuing enormous social costs, not only in Greece but also in Italy, Portugal and Spain, and the time period required for Juncker Plan to extensively deploy its positive effects on the European economy, transitory and extraordinary measures should be immediately implemented to increase the financial capacity of the EFSI, using all the legal instruments that are now available: a) in the framework of Quantitative Easing the ECB could focus up to 12% of its total monthly purchases of public securities on bonds emitted by the EIB or other European agencies, b) additional financial contributions could be obtained from Member States, and these could also co-finance individual projects financed by the EFSI, through its banking system as well. This co-financing will benefit from the 'investment clause' if the GDP growth of a Member State is negative or GDP remains well below its potential. According to the new flexibility rules proposed by the Commission, these payments will not negatively affect compliance with the deficit or debt rules established by the Stability and Growth Pact.

In a recent Report to the German and French governments entitled "Reforms, Investment and Growth: An Agenda for France, Germany and Europe" Henrik Enderlein and Jean Pisani-Ferry suggest that a good solution for Europe could be to establish a fiscal capacity in the eurozone or, in other words, a budget for the eurozone, including the capacity to emit bonds. But they remark that, even though this idea is a stimulus for the longer term, at the moment this capacity does not exist and there is no governmental structure able to implement this project. It also depends on us to do what is needed to make this first best solution realistically possible.

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