A new path for Europe:
ETUC plan for investment, sustainable growth and quality jobs

Adopted at the meeting of the ETUC Executive Committee on 7 November 2013

Introduction

The economic and social situation in the European Union, particularly in countries in difficulty, is alarming. We deplore increased inequalities and geographical imbalances, rising unemployment - especially for young people-, reduced consumption, jeopardised social cohesion, rising political instability, the rise of anti-European groups and the collapse of local markets. This is the result of austerity policies which encouraged internal devaluation, privatisation of public services, cuts in wages, pensions and welfare payments. We are caught in an economic downwards spiral, and in increased public debt. The recession threatens to spread across the entire continent with impact on the global economy. These policies also exacerbated the EU economic and political divergences instead of overcoming them.

Desperation of many workers in countries most severely affected leads to migration of citizens in search of temporary or permanent employment in other EU member states and outside the regulated labour market, creating a situation of forced mobility rather than the desired freedom of movement.

The demographic evolution, scarcity of natural resources, increasing energy prices, the role of emerging economies in world trade, the increasing reliance on knowledge and technology in business, continuing uncertainties in the banking sector are additional daunting challenges facing us in this second decade of the 21st century.

Beating the recession and stagnation of our economies is the most urgent task in front of us. The continuing fall in GDP in parts of the EU must be stopped and reversed. We need a strong recovery, supported by a solid financial sector serving the real economy, to prevent prolonged stagnation across the EU as a whole. This is the way to secure sustainable state finances. Consolidation of State budgets should take place in stable economic phases and be carried over a longer period of time. They should be socially equitable and guarantee quality public services. This goal can be pursued by allowing flexibility on public deficit and/or introducing the possibility of not subjecting specific productive investment to the budgetary constraints of the Stability Pact.

The ETUC is convinced that the EU has the potential to combat this crisis. This potential relies on well educated people, strong industrial base, good public and private sector services, innovative research and educational institutions, well organised state systems, cultural wealth, and, inclusive and well distributed welfare state within the EU, a Eurozone with a stable single currency. This potential must be used to overcome the crisis for the benefit of the people. Unfortunately this potential is being dissipated rather than developed. The EU must mobilise its strengths for a better, more equal, prosperous, democratic and peaceful future.

It requires investments in power generation, reducing energy consumption to lower the energy dependency, and to decrease greenhouse gas emissions. It requires investment in sustainable industries, especially SMEs, and services, training and education, research and development, modern transport infrastructures, the reindustrialisation of the EU, efficient private services and quality public services.

There is an urgent need to take a new direction for the future, stabilise the economic environment, and create jobs for the 21st century and give access to the welfare to everyone. Europe needs a long-term recovery plan.

A recovery plan would lead to a better integrated European union, it would be beneficial for all countries, and be an act of solidarity with countries in difficulty; it is based on democracy, stability and cohesiveness. It would substantially contribute to modernising national economies and improving productivity.

Working together in the European Union for sustainable investment and decent jobs.

Policies of internal devaluation have been negative for demand and investment; such policies have also encouraged unfair competition on wages and working conditions, and labour law. We need to reverse this trend through reinforced cooperation.

The following measures would provide scope for greater cooperation:

- Cooperation on tax avoidance, evasion and tax havens through comprehensive information sharing and cooperation between national tax authorities and harmonisation of the corporate tax base;
- Financial market reform to rebalance the EU's economy;
- Greater cooperation between national authorities, civil services and public services to promote long term quality public services;
- Involvement of social partners in strengthening social dialogue, collective bargaining and worker participation, particularly in relation to economic governance process at national and EU level, education and training and labour market reform;
- Promotion, respect and enlargement of European social standards so as to fight precarious jobs and promote decent, quality jobs.

Some countries in difficulty need additional measures to stabilise their economy and build up solid state structures. Extending the terms of existing bilateral and multilateral loan agreements, especially for new long term investment and substantially cutting their interest rates would provide security in economic development. In this context the introduction of Eurobonds can protect countries undergoing difficulties from uncontrolled speculation and be an efficient tool for productive investments. This implies also a review of the mandate of the BCE ensuring to this institution a role of lender of last resort

The EU budget and particularly the structural funds should support sustainable growth, investment and decent jobs. Both unspent resources and new structural funds should promote priorities in line with this plan, in coherence with the EU 2020 objectives. The use of structural funds should be facilitated by simplification of the procedures and taking out co-financing resources from the deficit and debt targets.

The EU needs a recovery plan for sustainable growth and decent jobs

A short-term stimulus, as advocated in 2009, is no longer sufficient. We need a longer-term perspective to overcome the deepening difficulties and divisions in the EU. We propose a target of investing an additional 2% of EU GDP per year over a 10-year period.

The aim is to:

- ensure wealth as well as enough decent and high-quality jobs with a future, especially for young people;
- be sustainable, designed so as to maintain the cohesion of European societies and adjusted to ecological, social and demographic challenges;
- be controlled democratically;
- be initiated as a pan-European supranational project rather than the sum total of the national stimulus or investment programme of the European countries;
- place measures necessary in the short term in the context of the long-term challenges and continue even during an economic upswing;

- set out rules for the market and provide policy orientation, thereby also steering private investment toward innovative projects for the future;
- have robust financing and at the same time put the countries in Europe in a position to generate tax income for the provision of public services and the reduction of public debt;
- contribute to income redistribution to counter inequalities and fight poverty at national and European level;
- go hand in hand with tax policies that can encourage investment that fosters growth in high-quality employment and encourages companies to adopt socially-responsible behaviour.

The rich and economically stronger countries and groups will have to contribute more to financing future investments.

Such a plan should be open to all EU countries; but investments would only be directed to those countries who contributed to the plan.

The directions for investment can be taken from past EU and EIB priorities. These include:

- Energy transformation (see Energy roadmap 2050, European Commission);
- Transport network and infrastructure (e.g. Trans-European Transport Network – TEN transport);
- Education and training;
- Expansion of broadband networks;
- Industrial future (SME support – on the condition that they apply legal and collectively agreed rules-, energy efficiency and efficient use of resources, low-interest loans, microcredit programme etc.);
- Public and private services (e.g. urban renewal, health and welfare);
- Infrastructure and housing for old people;
- Social housing;
- Promoting sustainable water management.

Europe-wide investment projects should be developed in conjunction with national investment projects. Investments which have the greatest impact on domestic economic activity should have priority. This should also be consistent with directing investment so as to give the greatest prospect of future financial return.

Towards democratic institutional arrangements and financing of the recovery plan

A European institution is necessary to manage the plan; such an institution will open up access to finance across the whole EU and can issue European long-term bonds with relatively low interest rates as a basis for financing investment across the EU.

Different possibilities exist for the direction, coordination and implementation of the European investment plan, and for its democratic control, for instance,

- The use of existing body(ies) such as the EIB
  and/or
- The creation of a new body, to be designed by Member States, European Parliament and European Commission.

In both cases it will be indispensable to ensure the democratic control over strategic policy orientation and supervision of the recovery plan and to secure its coordination. How to do that would have to be decided by the European Parliament. Social partners must be involved at all stages of the democratic process.

In both cases the institution would receive and manage the initial share capital and then raise extra finance by issuing long-term bonds that would incur annual interest, taking advantage of the large volumes of saving both within and outside the EU seeking secure investment opportunities.

The standard method should be direct investment, low interest-loans, investment grants and/or the recently introduced project bonds. These will follow applications from businesses, national governments, regional and local authorities and other organisations in member states. Success therefore depends on a satisfactory flow of convincing projects.

Interest obligations for loans incurred by public sector bodies could be funded from additional tax revenue brought from recovery of the economy.

Loans to the private sector should be commercially viable and therefore yield a return.

In order to keep the interest rate on 10 year bonds as low as possible, the European institution that issues the bonds needs to be seen as a solvent debtor with sound credit ratings on financial markets. It would therefore need sufficient equity at its disposal. Member states would decide how to organise the source of this equity.

However, after workers and taxpayers having borne the main burden of the crisis, it is now time for the wealthy and rich to also participate in this one off funding of capital for the European guardian of growth and investment for example via a one-off wealth tax.

Member States might decide to use unspent resources from the structural fund to contribute to this equity and/or to use the structural funds as a co-guarantee for the loans. The Commission can also be involved as a co-guarantee for the loans.

The initial repayment requirements are extremely low, amounting only to the interest on long-term credits. Although this increases over time, particularly when the initial loans have to be repaid, it is always a small sum relative to the increase in tax revenue, assuming that rises in line with GDP, once growth in GDP is restored.

There is therefore no need for increasing tax rates or for introducing new taxes. However, member states could choose their own means to raise extra revenue.

The revenue from the Financial Transaction Tax could contribute to financing the initial capital to be paid in by national governments or to financing the interest of the loans.

Predicting the results:

A long term investment plan should increase national income and employment levels in the following ways:

- The immediate effects of investment, meaning more employment in construction projects and the higher demand that will result from that.
- A substantial increase in tax revenue, will be more than adequate to repay the loans.
- Reasonable forecasts can be made over the next few years of resulting effects on income and employment levels.

The proposed increase in investment by 2% of EU GDP per year should kick-start additional private investment and thus promote wide-scale private modernisation measures.

In the long-run the investment offensive in a fundamental overhaul of European national economies in terms of energy policy could yield up to 11 million new full-time and innovative jobs (see annex 1).

Quantitative growth and a high level of employment also create the best basis for reducing debt levels and budgeting sustainably. Our plan will benefit the EU countries since they will receive additional impetus for growth and employment and can use this to generate significantly higher direct and indirect tax revenue from income tax, VAT, company and corporate taxes as well as social security contributions and to cut the cost of unemployment. This will, in turn, facilitate repayment of the debt incurred.

Investment spending on developing new facilities for education, training, research, health care and other services can have a meaningful long-term impact only if there is current spending to employ the necessary personnel. Creating quality jobs conflicts with austerity policies where cuts in public spending have led in many cases to emigration and to a brain drain.

The long-term effects, once investment projects are completed, cannot be estimated with precision. They should be substantial. For example, an energy transformation will cut carbon dioxide emissions and decouple Europe's energy supply from fuel imports thus potentially saving 300 billion on the European fuel energy bill. This is one of the most important factors for the competitiveness of tomorrow. This will allow Europe to make a significant contribution to reducing the impact of the global climate crisis and become a role model for other economic regions around the globe.

Annex 1: EFFECTS OF INVESTMENT PLAN

The effect of the investment plan has been computed with two different models to capture both the short-term and long-term effects of the recovery plan.

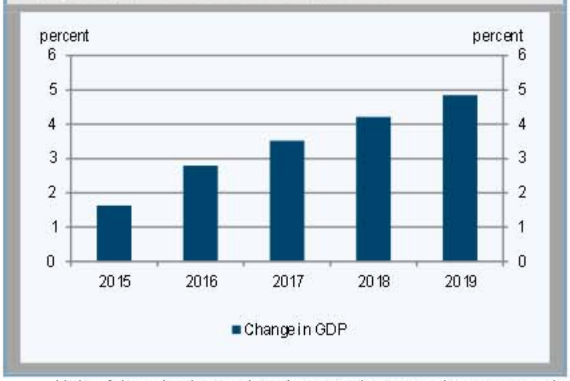
A. Short-term to medium term effects.

The Economic Council of the Labour Movement (ECLM) has calculated the effects of increasing public investments in the EU with 2 percent a year in the years 2015 to 2019.

Graph 1.A Effect on employment in EU27

Note: Interest rates and exchange rates are set exogenous in the model.
If the ECB decides to increase the interest rate the effects in the medium turn will be smaller.
Source: ECLM on basis of calculations in HEIMDAL.

Graph 1.B. Effect on GDP in EU27



Note: Interest rates and exchange rates are set exogenous in the model.
If the ECB decides to increase the interest rate the effects in the medium turn will be smaller.
Source: ECLM on basis of calculations in HEIMDAL.

The investment plan increases employment by more than 1.7 million people in 2015 rising to nearly 6 million people in 2019. GDP in the EU27 is increased by 1.6 percent in 2015 and in 2019 the GDP level is increased by almost 5 percent compared to a scenario without the investment plan. The results for various countries are listed in table 1 for 2019.

Increases in business investments are also a consequence of the investment plan. In the EU-27 as a whole the level of business investments is lifted by more than 7 percent in 2019.

Table 1. Effects of increasing public investments

	GDP	Employment (persons)	Employment	Business investments	Direct and indirect taxes	Current balance
	Percent	1000 persons		Percent		PP of GDP
Spain	3.6	674	3.8	5.7	4,1	-0.7
France	1.8	512	1.9	6.7	5,8	-0.3
Germany	3.4	1308	3.1	12.0	8,5	-0.2
Italy	1.7	363	1.6	3.2	11,0	-0.7
Sweden	3.0	109	2.3	5.3	5,8	-0.7
UK	2.3	481	1.6	4.0	3,5	-0.4
Finland	2.6	56	2.3	7.0	8,3	-0.1
Denmark	2.7	56	2.0	7.7	10,0	-0.6
Czech Republic	6.8	253	5.3	6.2	6,6	0.2
Poland	4.9	585	3.9	13.1	6,2	-1.3
Belgium	2.6	86	1.9	6.0	6,1	-0.2
EU27	2.8	5825	2.7	7.1	6,9	-0.3
Euro area	2.8	3849	2.7	7.5	7,6	-0.3

Note: Interest rates and exchange rates are set exogenous in the model. If the ECB decides to increase the interest rate the effects in the medium turn will be smaller.
Source: ECLM on basis of calculations in HEIMDAL.

B. Long-term effect of the investment plan

In the long-term the effect of the investment plan as specified above will also have an impact on the value of elasticity as the economy will converge towards a less energy intensive economy. Using the methodology of the European Commission, the investment plan will create between 7,2 to 11 million full-time jobs all depending on the value of multiplier. Furthermore the increase in GDP due to the investment plan is estimated to lie between 312 to 390 billion Euros. Likewise the tax revenue and social security contributions will increase substantially.

Table 2: Long-term (10 years) effects of the investment plan according to European Commission methodology using different values for the multiplier effect (min. 1,2 to max 1,5)

Source: DGB

Multiplier	**1.2 minimum**	**1.3**	**1.4**	**1.5 maximum**
GDP (EUR, billion)	312	338	364	390
Full-time Jobs (million)	7.2 to 8.8	7.8 to 9.5	8.4 to 10	9 to 11
Tax revenue (EUR, billion)	83	90	97	104
Social security contributions (EUR, billion)	45	48.5	52	56
Savings in unemployment benefit expenditure (EUR, billion)	16	17	18.7	20
Savings in fossil fuel imports (EUR, billion)	300	300	300	300

Note: Methodology according to European Commission Directorate General Economic and Financial Affairs: new and updated budgetary sensitivities for the EU budgetary surveillance (Information note for the Economic and Policy Committee), Brussels, 30 September 2005)

Annex 2:

NOTES ON THE EUROPEAN INVESTMENT BANK AND ITS SUITABILITY FOR A RECOVERY PLAN

1. Purpose and priorities

Article 309 of the EU Treaty sets out the EIB as a non-profit-making organisation that supports the development of the internal market. It grants loans and gives guarantees to finance projects for developing less-developed regions, for modernising or converting undertakings or developing new activities and for projects of common interest to several member states.

Its current plans for increasing investment focus on support to SMEs, knowledge economy, transport, energy, urban and health, 'environment and non-transversal climate and convergence'. Funding strategies are designed to target 'regions and sectors where financial constraints are the most severe and where investment can be unlocked rapidly'.

Governance and accountability

The EIB is directed and managed by a Board of Governors, a Board of Directors and a Management Committee. The first two of these are appointed from member states and are concerned with strategic decisions. The voting systems ensure representation for all member states while also respecting financial contributions. Day-to-day decisions are taken by the Management Committee. These follow the priorities laid down by the Board, i.e. set by member states in consultation with the European Commission. Targets for broad investment areas are set and the management is answerable to the Board for their implementation. The Board in turn presents an annual report to the European Parliament which can also scrutinise conformity of its practice with set priorities.

Lending policies

The EIB lends to both public-sector and commercial projects. The former are the responsibility of that government. The latter may require a government guarantee or some other form of financial guarantee for the project. Thus a significant body of its investment is already guaranteed by governments.

It grants long-term loans, frequently of around, or over, 10 years.

The practice has been to seek co-financing, meaning that investments are also partly financed by another body. This can mean co-financing EU Structural Funds projects. It also means seeking joint funding from commercial banks. This gives the potential for a multiplier effect, with considerably more total investment than that promised from the EIB alone.

Co-financing is not an absolute requirement. The EIB statutes (Article 16.2) refer to it as a condition 'as far as possible'. However, it has always been possible to find other bodies (EU funds, public sector bodies and above all commercial banks) to join in funding projects that have the EIB stamp of approval. The EIB has aimed for at least 50% co-financing, but has recently expected co-financing to lead to a total investment level three times the EIB commitment. If this is maintained, a target investment level of 2% of GDP could be achieved with an EIB contribution equivalent to 0.67% of GDP.

Capital requirements

The bank's capital is contributed by member states, roughly in proportion to their levels of GDP. The total amount is set by the Board of Governors, currently at EUR 242 bn.

Member states are required to pay in, on average, only 8.9% of this. The remaining part is a guarantee should the bank be unable to meet its obligations. This has never been called on and is never likely to be called on.

According to its statutes, the EIB can lend up to 250% of the total capital, meaning what is paid in plus what is guaranteed. This has never been a practical constraint. A more serious constraint has been imposed by rating agencies which limit the amount the EIB can borrow. Their approval is required by the EIB's need to retain its AAA rating. The effect has been to limit lending to eight times the capital actually paid in. Thus an increase in credits would require more paid-in contributions and an increase in the guarantee (the capital not paid in) from member states.

With the maximum proposed for the recovery plan, a 10-year period of investment at the equivalent of 2% of GDP, assuming co-financing, would mean raising the total paid-in capital by 0.83% of total EU GDP. This is a small sum over a ten-year period when set against likely returns from investment. It would ideally be firmly agreed at the start, but payment would not need to be immediate.

An increase in capital requires a unanimous vote from the Board. All member states would be expected to contribute in line with their past shareholdings. There are precedents for states paying in different amounts. There are also precedents for member states withdrawing capital from the EIB.

<u>Does this imply transfers between countries?</u>

The EIB has been committed to investing in all member states, but with a bias towards those with lower incomes. It does not set quotas for countries and does not match capital paid in with investment in a particular country. However, investment undertaken in a particular commercial or public-sector project has to be repaid from the returns from that project or from that country's tax revenue. It does not make gifts but offers loans. Shares in the bank are also assets that bring a return and there are precedents for member states' governments taking some of this money out. There therefore need be no long-term transfers between countries.

The bulk of the EIB's resources come from bond issues and hence from savings in insurance companies, investment funds and pension funds. There is likely to be more from higher incomes countries, but much is also likely to come from outside the EU. Even if there is a greater financial input from one country rather than another, this should not be seen as a permanent transfer. These bonds are an asset that will earn a return in the future, funding pension and other payments.

Raising investment in an EU member state can be expected to have economic impact beyond its borders, creating demand for machinery and other goods. There will therefore be benefits across the EU from a recovery plan that prioritises investment in the countries facing the greatest difficulties.