



Proposals for boosting mission-oriented investment

Progressive Economy 31 May 2016

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Here are some proposals for two main lines of action, to boost strategic investment in the European Union.

I Fiscal policy

To encourage higher mission-oriented investment, an essential element is maintaining or better increasing existing levels of public investment, in all EU countries. Such a policy will also crowd-in private investment.

This may require either greater flexibility in the implementation of the Growth and Stability Pact or a change in its fiscal rules, to make them more countercyclical. A fruitful avenue for this aim is to exclude key public investments, eg in innovation, renewable energy, education, and infrastructure (provided they contribute to increases in future productivity and structural transformation), from fiscal deficit targets

It is encouraging that recent research at the IMF (quoted in attached presentation) says this approach is the most effective way of maintaining public investment, whilst defending fiscal sustainability. I am also attaching a short FEPS Policy Brief, which I prepared for Maria João Rodrigues, after a very successful FEPS-IPD-Brookings conference on fiscal policy, where Joseph Stiglitz, Peter Bofinger, Jamie Galbraith, Maria João herself, Pervenche Berès, Ralf Stegner, Jason Furman, Stephanie Kelton and others spoke.

II Role of EIB and national development banks; beyond Juncker Plan

To help encourage fund private investment, in times of such slow growth, and ensure such investment is channeled strategically towards priority sectors, the EIB and national development banks need to play a key role.

In this sense, the Juncker Plan is a clearly a step in the right direction. However, it is very unclear whether it can deliver in a quick enough way, the Euro 315 billion of additional investment it has targeted; also, this additional investment, even if achieved, would be insufficient for both funding the needed structural transformation of the European economy in the medium term, and helping boost aggregate demand in the short term.

Therefore, supplementary measures are needed, such as a further increase of paid-in EIB capital to be agreed by EU member states (for example by Euro 10 billion). A Euro 5 billion annual contribution from the EU budget could also be deployed to mitigate private investment risk, especially for institutional investors like pension funds, as well as insurance companies. (These and other measures are outlined in attached paper written with Giovanni Cozzi, for forthcoming book co-edited by Mariana Mazzucato; a paper with Matthias Kollatz and Udo Bullmann also attached on related topic, but more linked to industrial policy. A Policy Brief with G Cozzi summarizing some of the proposals also attached).

Creative ways need to be sought to also attract resources from sovereign funds, starting perhaps with the Norwegian one, as well as from collaboration with the newly created AIIB, (which has a total capital of Euro 100 billion) where most EU countries are members.