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JUNKER PLAN AND TRUMP PLAN: INFRASTRUCTURES FOR THE MARKET OR FOR THE CITIZENS?

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After years of economic crisis, there seems to be no doubt that in order to support economic growth we have to focus on investments. While in Europe the European Commission President Jean-Claude Juncker has launched the Investment Plan for Europe, also known as the "Juncker Plan", the newly elected US President Donald Trump announced a plan of infrastructural investments "*to make America great again*". The point is no longer, as Larry Summers noted, whether bigger investments have to be made, but rather in what regulatory framework they shall be made. What really makes the difference is defining what the financing methods shall be and the role the private and the public sectors have to play, as well as defining the priority of the sectors to be financed.

First, both programs are not truly public investment plans. On the contrary, they provide for a broad participation by the private sector, based on the assumption that public funds are not sufficient to bridge the investment gap, estimated in the hundreds of billion dollars a year.

In Europe, the Commission and the European Investment Bank (EIB) have devised the European Fund for Strategic Investments (EFSI), fueled in part by the Community budget and the reserves of the EIB, and in part by voluntary contributions of the member States, for a total of about 63 billion euros. This is not a fund from which to draw in a direct way, but a guarantee fund of first-loss on highly risky projects, designed to encourage to a large extent the participation of private investors in a time when strategic projects in the real economy are struggling to materialize. In essence, the goal of achieving 315 billion euro worth of investments in three years will be financed with 20% of public funds and 80% of money raised on the market.

Across the Atlantic, Wilbur Ross and Peter Navarro, Trump's economic advisers (the first is now the Secretary of Commerce in his administration), in an analysis on "*Trump versus Clinton on Infrastructure*", have highlighted the "innovative" aspect of the Trump Plan: the transition from a traditional system of financing by issuing government bonds, to a new public-private partnership model. The authors believe that, in order to mobilize a sizable market intervention, a venture-capital component is needed to cover all the costs of the investment risks, amounting to 167 billion dollars, that will make a total of one thousand billion dollars of investments possible. To attract such a venture-capital from the private sector, an 82% tax credit will be applied, which practically gives back to the lenders a large part of their contribution, and reduces the cost of financing. According to Ross and Navarro, this tax exemption will be *revenue neutral*, because it will be offset by higher future tax-revenues generated from both the incomes of new jobs and the profits from new contracts created as part of the Trump Plan.

Kevin De Good, of the *Center for American Progress*, said that the tax credit designed by Trump will merely transfer resources from the federal government to the pockets of the rich Wall Street investors. Trump's idea follows the recipes of *Reaganomics*: lower taxes and more deregulation provide incentives to invest more, thus generating more revenue for the state budget. In Reagan's time, that did produce a stimulus to growth, but was also the beginning of the increase of inequality. Furthermore, Reagan was forced later on to raise taxes, because of a continuously growing federal deficit. Today, the *forecasts given by the Tax Policy Center* say that with *Trumponomics* the richest 0.1% of the population will get a reduction of 14% of their income taxes, while average incomes will have a tax reduction of less than 2%.

The other crucial aspect of the two plans concerns the different growth strategies they refer to. When people talk about the Juncker Plan, they often make the mistake of focusing only on the EFSI, failing to mention the other two pillars of the plan. One includes two tools (the European Investment Project Portal and the European Investment Advisory Hub) whose task is to facilitate the meeting between investment supply and demand in Europe. The other pillar, the one on which the Commission has more long-term expectations, aims to improve the regulatory environment within the Single Market in key sectors such as renewable energy, and the capitals and digital technology market, to make Europe a fertile ground for investments. The initiative of the current Commission is therefore consistent with the objectives of the Europe 2020 Strategy, launched in 2010, which provides for the transition to an economy based on low carbon emissions. The Juncker Plan, thanks also to a project-selection activity, aims to ensure a continuity with respect to the long-term targets set out by the previous Commission.

The infrastructure plan proposed by Trump, as we learn from his economic program, is designed to create millions of jobs, but does not provide a strategic direction to the type of growth. The focus is on traditional infrastructure (transport, supply of clean water, electricity networks). Although these are the US priorities today - "*More than 60,000 bridges are considered 'structurally deficient'. Traffic delays cost the U.S. economy more than $50 billion annually. Most major roads are rated as 'less than good condition'.*"- clear strategic targets, such as the transition to the use of renewable energy, are not defined. Trump's energy program plans to "*Rescind all job-destroying Obama executive actions ...reduce and eliminate all barriers to responsible energy production.*"

The Juncker Plan, after more than a year of activity, has managed to achieve the quantitative objectives it had set itself. It is too early to assess the capacity of the Trump Plan, for now only a "declaration of intent", to realize its expected multiplier. Both plans rely largely on the private sector for the construction of public infrastructure which should benefit the whole population. The Juncker Plan so far has produced territorial concentration, whereby most of the projects lie in the richer EU countries, while the Trump Plan, relying on tax exemptions, could produce an increase in income inequality and not be fiscally sustainable.

In times of excess savings and high levels of public debt, public-private co-funding is a possible solution, but it must not undermine the leading role of the policy makers in regard to the type of growth to be promoted through higher investments in those sectors that allow a growth inclusive of people and sustainable for the environment. Europe seems determined to go down that road, but more attention should be given to the issue of territorial imbalances. In the United States under Donald Trump, who still remains a businessman, it is too early to judge, but probably investments will increase where private profits will be greater, not the production of public goods.

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(The opinions expressed here do not necessarily reflect those of the CSF)

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