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Introduction

Macroeconomic conditions are currently favourable for a recovery of the European economy: the European Central Bank's (ECB) highly expansionary monetary policy, low interest rates and the dollar exchange rate, favourable prices of oil and gas. Despite this, aggregate demand is struggling to grow. One of the main difficulties facing Europe is the lack of confidence of the private sector, particularly those investors with high levels of liquidity who are nonetheless reluctant to invest their capital in the European real economy.

European institutions have recently recognised that Europeans do not have the mindset for long-term investment and have taken a number of measures aiming to overcome this failing: for instance, the agreement in the European long term investment funds (ELTIFs), private investors that only put money into businesses that need money to be committed for a long time, and, more importantly, the launch of the Junker plan. This plan provides for close cooperation between the European Commission and the European Investment Bank (EIB), with the EIB creating the European Fund for Strategic Investments (EFSI) whose task will be to guarantee higher risk investments and to mobilise financing mainly from private sources. However, the importance of productive investments in Europe today, coupled with the volatility of the financial markets, makes it essential for the European Union (EU) to be regularly able to rely on large amounts of funding guaranteed over time and supported by the institutions.

Excessive saving

In addition to the long-standing problem of lack of investment, the Europe of the last five years has a further difficulty, namely the inability to take advantage of an ever increasing flow of savings by using them for productive investments.

As a result of the economic crisis, investments have decreased in most European countries, down by as much as 20% between 2008 and 2009 and, after briefly stabilising in 2010, reduced by another 6% in the period 2011-2013. However, this situation has been going on for far longer: over the last thirty years, both private and public investment has shown a disturbing trend. Calculating the estimated trend of total investments in the Eurozone in the period 1970-2014 at 2014 prices, there can currently be seen a difference of about €260 billion[1].

The flip side of investments is savings. A recent EIB report reveals that Europe, after having been an importer of foreign capital between 2006 and 2010, has become a net exporter of capital i.e. savings: in 2013 savings exceeded investment by 7% [2]. About two-thirds of total savings in Europe come from businesses, followed by those of the

public sector accumulated as a result of fiscal consolidation policies required by European rules. In Italy, the gap between savings and productive investment is particularly large: of the total wealth of households, approximately €3,848 billion (less than 10%) is used to fund Italian companies and economic development. All the rest ends up in government bonds or abroad[3].

The Eurozone crisis as a balance sheet recession

The dynamics of saving and investment in Eurozone countries seem to be following the dynamics of what Richard Koo has defined a *balance sheet recession*, marked by a process of deleveraging i.e. reducing debt[4]. Typically, after the bursting of a house price bubble, households and companies need to replenish the value of their wealth that had collapsed together with the prices of assets. However, in this way, consumption and investments are postponed while priority is given to restoring savings and paying down debt. Even with interest rates close to zero, as is the case today, no-one is prepared to borrow again to use resources in the real economy. According to Koo, the situation in the Eurozone is further aggravated by the single currency which, by eliminating exchange rate risk, encourages the movement of capital between member states. In fact, the savings accumulated in a country affected by a balance sheet recession, such as Spain, are not used to buy Spanish public debt but instead to buy the bonds in a country that is not having the same problem, such as Germany. This only fuels the fall in aggregate demand in countries in difficulty because their governments, already placed under tight budgetary constraints, cannot compensate for the lack of stimuli from the private sector.

This view of the crisis as a balance sheet recession refers to the Keynesian idea of money as a store of value. From this point of view, saving is only a failure to consume, a natural reaction of playing safe in moments of difficulty. According to Keynes, the tendency to save is historically stronger than the impulse to invest simply because the future is uncertain and subject to unpredictable events. A lack of confidence in market conditions may therefore prevent the bulk of savings in an economy from being spent and invested, leaving them unused in the form of liquidity.

Energy Union

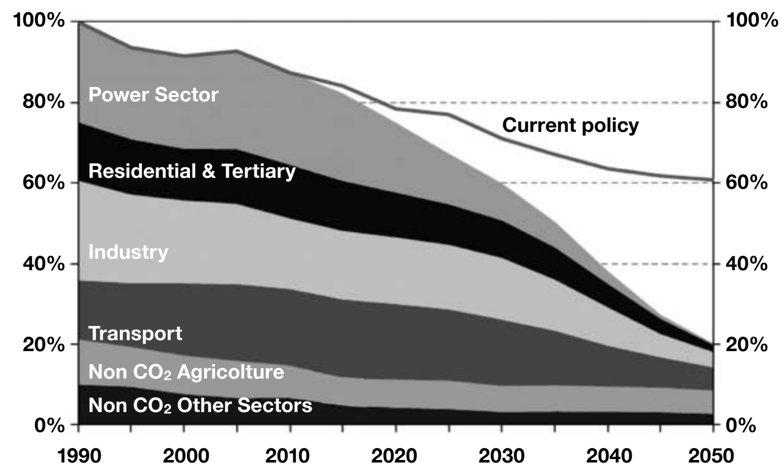
Nonetheless, in Europe there are several good projects seeking liquidity. The Commission has defined which sectors will benefit from funding by the EFSI: infrastructures (broadband, energy networks, transport in industrial agglomerates), education, research and innovation, renewable energy and energy efficiency. The first projects for backing by the EFSI have already been picked by the EIB: they relate to the health sector in Spain and Ireland, the construction of an airport in Croatia and industrial innovation in Italy[5]. In the coming months also projects in the area of renewable energy and energy efficiency are likely to be included.

One important result achieved by the Commission in the area of energy and transport has been the "Energy Union", a very ambitious climate package: just for the period up to 2020 it will be necessary to invest over €1000 billion in the energy sector[6]. As pointed out by Jacques Delors, the Energy Union could be the motor for starting Europe's energy transition, provide an opportunity to overcome the current isolationist, short-sighted tendencies that have characterised the EU's energy policies in

recent years and thereby reaffirm the principles of integration, cooperation and solidarity[7].

It is within the framework of the Energy Union that the EU is preparing to take a leading role in the next international climate conference in Paris for reducing emissions of CO_2 and other greenhouse gases. Already in 2011, the European Council set a target for the EU to reduce greenhouse gases by at least 80% by 2050 compared to 1990 levels, in the context of the necessary reductions that, according to the IPCC (Intergovernmental Panel on Climate Change), developed countries must achieve. The Commission has made a roadmap for achieving this objective, based on a gradual approach: this provides for reductions of 40% by 2030 and 60% by 2040, until reaching the final objective of 80% in 2050 thanks to the growing availability of a wider range of efficient, low-cost technologies.

EU greenhouse gas emissions towards an 80% domestic reduction (100%=1990)



Source: European Commission (2011), "A Roadmap for moving to a competitive low carbon economy in 2050".

The energy strategy prepared by the current Commission in the Energy Union aims to reduce dependency on foreign countries by diversifying supply sources while also exploiting energy produced in Europe, particularly from renewable sources. Europe has set itself a minimum target for 2030 of 27% of its energy consumed to come from renewable sources, and also to become a world leader in the development of the next generation of competitive and technically advanced renewable energy. At the moment, about 40% of all patents for renewable technologies are held by European companies. Furthermore, confirmation is coming from several quarters that generating energy from renewable sources is a real hypothesis and an increasingly economically viable technology. A recent study by the French Agency for environment and energy management (ADEME) has shown that the idea of France producing 100% of its energy needs from renewable sources by 2050 is not so unrealistic[8]. According to the Agency, the costs of sustaining a completely green energy framework would be only slightly higher than the current scenario indicated by the French government of reaching an objective of 40% by 2030.

Another sector to renew would be that of transport which absorbs more than 30% of final energy consumption in Europe. About 94% of transport in Europe depends on oil products, of which 90% are imported. To decarbonise the sector, a more widespread use of alternative fuels would be necessary. According to a study by UBS, the combined use of three green technologies – solar energy, lithium batteries and electric vehicles – is an opportunity for radical change in Europe's energy sector, especially for countries such as Germany, Italy and Spain[9]. The study predicts that electric

vehicles will be in mass production by 2025, largely as a result of prices for batteries reducing by as much as 50% in 2020. The main problem with using solar energy – its intermittency - can be eliminated by combining it with the use of batteries and electric vehicles, making solar energy a perfectly competitive resource. Technology of this sort would bring about a completely new situation of relocating energy production in which the traditional companies managing large-scale distribution will give way to a myriad of end-users able to produce and store clean energy.

Rediscover the EIB

The Juncker plan includes creating public goods on a large scale, for which it plans to mobilise €100 billion a year over three years, thanks to the involvement of the EIB. It is the EIB's task to fund major infrastructure projects and, in general, those public goods that, by their nature, are subject to high levels of difficulty: they involve very long construction times, irrecoverable costs, positive externalities that individual countries are unable to internalise and, above all, they come up against the barrier of the market's distrust and the lack of availability of long-term funds. This is why they are projects that, without the help of the EIB, would be unlikely to ever get off the ground. Additionally, the low rate of interest charged on loans and a "triple A" assessment by the rating agencies should make the leverage a possibility. It is estimated that, starting initially with making €21 billion available, the presence of the EIB should attract private capital for a total amount of €315 billion in three years.

Already during the crisis, the EIB has provided a cyclical stabilising role. Between 2007 and 2009, it increased its loans from €47.5 billion to €78.8 billion. The amount progressively reduced to €73 billion in 2010 and €62 billion in 2011, going back up to almost €72 billion in 2013. Unfortunately, however, according to the 2014-2016 operation plan, the EIB has decided that, after a programme of loans of about €67 billion for both 2014 and 2015, the amount allocated to the real economy will reduce to approximately €50 billion in 2016 in order to return to more sustainable figures over the longer period[10]. And yet it would be appropriate for the EIB to continue to play a central role in the strategy for stimulating investment owing to its ability to deliver not just the leverage mentioned but also other types of leverage, not strictly economic, that only actions like those of the EIB are able to promote[11].

First of all, the EIB's intervention can generate the 'institutional capacity building' necessary for the EU. The EIB has been specialised in the field of long-term loans for over fifty years, handling very high unitary amounts. In addition, before granting a loan it requests a certain institutional structure based on a partnership between government and non-governmental players. Therefore, the EIB's experience and knowledge can be a valuable heritage of skills and best practices that should be distributed within the EU to stimulate a mindset of long-term investing.

Another type of leverage concerns the strategic policy orientation. The EIB's interventions have changed over time, as has its role[12]. Since its creation in 1958 until the early 1970s, the EIB was involved in regional development projects in the poorest areas of the European Economic Community. In 1973 this role was interrupted by the oil crisis, which transformed the EIB into a policy-oriented institution committed to promoting a new energy paradigm aimed at achieving independence from abroad. Later, from the mid-1980s, the EIB began to act as a "market maker": the main areas of action correspond to sectors placed at the centre of a new policy of liberalisation and privatisation launched with the creation of the single market. The decision to finance certain sectors in specific historical moments made it into a policy-oriented institution, which helped the EU to put its strategy in place.

The EIB could now play a 'challenge-led' role: as the economists Mazzucato and Penna argue, since the EIB is a state investment bank, it would be in the right position to promote 'mission-oriented' projects i.e. those focused on developing new technologies able to address societal challenges[13]. By setting the condition that its loans are for projects of common interest to member states, but which individual states cannot fully finance on their own, the EIB can subtly shape the preferences of national, regional and local authorities which, without the EIB, would not have made such choices. In this respect, the EIB contributes to creating a more cohesive Europe and to encouraging the involvement of various types of stakeholders, from financial intermediaries to small and medium-sized businesses.

Greater cooperation between the EIB and ECB

In order to give more weight to the EIB, the Greek Minister of Finance, Yanis Varoufakis, has put forward an alternative proposal for funding the EU's investments[14]. This is based on the principle of intelligently using institutions and instruments that are already available in Europe. The idea is to have close cooperation between the EIB and ECB: on one side, the EIB should be allowed to launch an investment plan focused on large scale infrastructure projects, and on the other the ECB should announce its readiness to intervene in the secondary market, buying all the EIB's securities so as to keep interest rates very low, in line with the current rates. Technically this proposal is workable – Joseph Stiglitz has defined it a "great idea"[15]– and it could be achieved in a very short time without the need to change the treaties. However, it is politically difficult to put into effect owing to the resistance of some countries, such as Germany and Finland, to accept the full sharing of risk associated with funding infrastructure projects.

In fact, the ECB has recently decided that a portion of the securities issued by the EIB are purchased as part of the quantitative easing programme begun last March, but this is a rather low quantity. The quantitative easing of March includes the Public Sector Purchase Programme (PSPP) for a total of €50 billion. Two types of securities can take part in the PSPP: bonds issued by Eurozone governments (88% of the total purchases) and securities issued by Community institutions (12%). These institutions also include the EIB, for which total purchases of about €2.6 billion a month are envisaged i.e. 5% of the PSPP. However, only the national central banks will buy the securities of Community institutions, not the ECB. Nonetheless, the purchasing of these securities will be under a regime of full sharing of risk, a sort of debt pooling. The ECB has also directed that, in addition to the 12% of securities already decided, a further 8% will be placed under the same regime. Therefore, given the ECB'S readiness to place up to 20% of the total purchases under common guarantee, it would be appropriate for this further 8% of securities to be used for purchasing bonds issued by the EIB to fund the EFSI.

From the results of the first month of operation of the PSPP, a technical paradox emerges as regards government bonds. One of the eligibility rules for a security to be purchased is that the interest rate is higher than that applied to deposits with the ECB, currently set at -0.2%. There are some countries, such as Germany, Finland and the Netherlands, which have recorded a lower interest rate than this threshold, thereby losing one of the requisites for participating in the programme. Considering that Germany is the main target of the purchase of government securities, the PSPP thus appears deprived of resources that have been set aside by the ECB for the real economy, but which the dynamics of too negative interest rates have taken away from it.

It would therefore be necessary to guarantee a better dividing of the purchases under the PSPP, in favour of securities issued by the EIB, and ensure that these securities are purchased by the ECB. To connect these financial resources to the real economy, the proceeds from the sale of the EIB's securities should be attributed to the EFSI. This would lay the foundations for gradually starting up the EIB-ECB cooperation, in the direction proposed by Varoufakis, and further reassure private savers so that they head towards major infrastructure projects. Then, over time, the positive effect could be to overcome the resistance of countries arrayed against mutualisation owing to the fact that, in this case, this is not a mutualisation of sovereign debt but investment expenditures for all Europe.

Fiscal capacity with own resources

There are thus the conditions to believe that the Juncker plan can be partially funded by the ECB by purchasing bonds from the EIB, primarily with the aim of keeping the quality of securities high and attracting the huge quantity of unused savings. The philosophy behind the proposal from Varoufakis is of a *decentralised Europeanisation* which simulates a federal governance of the Euro without federation, without further loss of national sovereignty and within the framework of existing treaties. However, clarifications are needed about the Varoufakis proposal.

Firstly, an investment plan on a European scale made by the EIB should consider the question of governance: the EIB is a policy-driven and non-profit public development bank, created to support the Union, and should not become the body responsible for the EU's fiscal policy. It should be the expression of a political institution, democratically legitimised, such as the Commission, that directs investment choices.

Secondly, the approach of simulating a federation without 'federating' can work for temporarily clearing the way for Europe's investments, if political agreement can be achieved for pooling of debt. But looking further ahead it will be necessary to aim for a process of *centralised Europeanisation* in which monetary and economic union is completed by fiscal union. If there have been losses of sovereignty by member states without such sacrifice bringing the benefits hoped for, this is precisely because it is a Union without federation. To guarantee that the European investment programme can continue steadily in the long term, it is necessary to move the fiscal federation project forward, going from the current method of coordinating individual national policies to a structure in which a supranational European power is responsible for a common economic policy. A development that seems hard to conceive today, but without which it is equally hard to imagine how Europe can cope with the economic imbalances

generated by economic policies of national interest and with the requirements for investment in public goods on a European scale.

There has been talk of a genuine European fiscal union for some time, to be obtained by securing own resources. In 2012, in the "*Blueprint for a deep and genuine Economic and Monetary Union*", the Commission explicitly called for the Eurozone's stronger fiscal capacity, supported by sufficient own resources to allocate to anti-cyclical investments in Europe. Today the Juncker Commission speaks of a productive investments plan and a strategic fund for achieving them, but without having yet fully resolved the financial constraint. The moment therefore seems to have come to reconcile the two objectives: fiscal union and stimulating of investment. An additional source of finance for the EFSI should therefore come from a fund paid into from the Union's own resources, such as the Financial Transaction Tax (FTT), the tax on carbon dioxide emissions, and the allocation of an additional quota of VAT to the European budget.

The first report on own resources prepared by the working group led by Mario Monti analysed the hypothesis of introducing the FTT in the EU[16]. As a European own resource it would create a new stream of public revenue that would relieve the member states of their current contribution to the EU budget, discourage highly risky activities by financial institutions, and reduce the fragmentation of the internal market of financial services, caused by not having harmonised national taxation. However, the same report makes no concrete proposals for making the EU independent financially, and in fact maintains full respect for the principle of fiscal sovereignty of member states. Eleven countries in the Eurozone, most notably Germany, strongly supported the introduction of the FTT in their tax systems by means of enhanced cooperation. What is now needed is a political initiative that focuses on allocating the revenues from the FTT to Europe instead of funding national budgets as it does at the moment.

Conclusion

Unlike the World Bank or the International Monetary Fund, the EIB has never received much attention, despite having for some time exceeded the volumes of loans of the World Bank. Instead not just its economic role but also its institutional role should be appreciated. Greater collaboration between the ECB and the EIB, where the former financially participates in supporting the latter, would enable the EIB to play a greater role in the investment strategy and to spread greater confidence to the capital market and a greater inclination towards productive investment.

At the same time, however, additional resources need to be introduced to support the Juncker plan, to put it in a position to start, as soon as possible, with creating European public goods. The fund supporting the investments should therefore be supplemented by introducing European own resources, with the ultimate goal of giving the EU the financial capacity it permanently needs to take forwards a common fiscal policy.

Note

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The activities of the CSF are focused on interdisciplinary research, documentation and information on internal and supranational federalism, the developments of regional and continental integration (notably, of the European Union), the issues related to the world order and the democratization process of the international system.

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