An Investment Plan for Europe

Talk at Bruegel, 12 January 2015

Participants: Jyrki Katainen, Vice President of the European Commission, Isabel Schnabel, Professor of Economics at the University of Mainz and Erik Nielsen, Global Chief Economist at Unicredit.

Katainen opened with a speech addressing five main points of the investment plan: (1) the type of instruments to be used and the ability to target additional investments; (2) how the guarantee fund works and how the plan will impact the EU budget; (3) the leverage effect; (4) flexibility in terms of the SGP; and (5) governance of the fund and the participation of Member States.

Schnabel then discussed how estimations of the investment gap often promote quantity over quality and can therefore lead to problematic policy implications such as ignoring the cause of low investment problems. As such, she stressed the importance of focusing on the third pillar of the investment plan – that of improving the investment environment. She further noted that this means improving access to equity by establishing financing neutrality in taxation, reducing leverage to mitigate the debt overhang problem, and promoting a capital markets union.

Erik Nielson then suggested that part of the low private investment problem stems from the fact that demand for credit lags GDP by 3-4 quarters as companies need to see demand for their products before seeking investment funds. On the public side, he stressed that the problem required action at both the pan-EU and national level, and furthermore, that investment and consumption spending should not be classified as the same type of spending in the SGP.

In response to a question on whether a capital markets union should be a pre-requisite to a successful investment plan, Katainen said that while a single market is important, it takes time to enact, whereas the first two pillars of the investment plan will be up and running by the end of June. On questions regarding whether the plan will actually promote investment in additional risky projects, rather than restructuring investment that would already take place, Katainen noted that although maintaining the triple A rating of the EIB is important, the EIB will necessarily have to take more risk.

Katainen also noted that he is interested in setting up a platform for venture capitalists in Europe where venture capitalists can be better connected to SMEs and entrepreneurs.

Event notes by Allison Mandra, Research Intern.

