



RECOVERING INVESTMENT, JOBS AND GROWTH IN EUROPE. A PROPOSAL

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There is growing consensus that it will prove impossible to restore growth on a sustained basis in the EU without stimulating investment. Restoring sustained and sustainable growth, based on expanded investment is also the best way to achieve widespread resolution of the sovereign debt crisis.

There is the need for additional growth and investment-promoting finance strategy which produces rapid and significant effects, enhances productive capacity, encouraging present and future sustainable growth by financing economically sustainable projects and activities, in the context of a vision of innovation and structural transformation towards a greener economy, support the growth of both existing and new competitive enterprises, especially those that are innovative.

There is the need for proposals that are not only desirable but also **feasible**. A sound initiative therefore has to be: feasible to **implement quickly**, have **sufficient size** to make meaningful contribution, be **cost effective** in terms of large impact with relatively limited additional public resources. The measures we propose provide significant leverage, lead to investment that will contribute to a more dynamic and equitable future European economy. The additional finance should above all provide resources for financing investment in innovation and increased productivity, including in sectors, strategic for growth.



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Two ways of investment to grow

There are **two promising paths** to use limited public resources to achieve important multiplier effects:

1. **To increase paid-in capital of the European Investment Bank (EIB).** We suggest a further increase of 10 billion Euros of the paid-in capital of the EIB. Given that rating agencies accept a leverage of eight, to guarantee maintaining its AAA status, the increase in capital would allow for an increase of up to 80 billion of EIB lending. Further, as EIB projects have to be co-financed, by at least 50% by private or public actors, e.g. private banks, the overall

additional lending could reach a total of 160 billion Euros for the next three years.

2. **The second route to achieve leverage is with the EU budget.** Large projects can be co-financed by the EIB alongside with private capital from pension funds and insurance companies that currently do not fund large investment projects, due to high risk. Before the financial crisis, these risks were absorbed by mono-line insurers such as AIG. After the crisis, this is no longer available. A very small amount (as proportion of the EU budget), equal to 5 billion Euros a year could be allocated as a risk buffer. Such resources would come from the existing EU budget, and could



imply some small restructuring of the EU budget. This 5 billion Euros a year would allow the EIB to lend an additional 10 billion annually both for financing and infrastructure projects, leading to investment of up to 40 billion annually.

What would be the impact of such proposal on jobs, growth, government debt and fiscal deficits? Using the Cambridge-Alphametrics Model (a global non-equilibrium macroeconomic model which allows us to generate long-term policy oriented projections) we build an investment-led scenario which assumes that: a) investment is significantly increased in order

to boost employment and GDP growth. This is basically financed by EIB capital increase and risk capital from resources available from the EU budget; b) national government expenditure is maintained to pre-crisis levels; and c) a modest increase in government revenue as a share of GDP takes place in order to offset the deficit effects of maintaining expenditure at pre-crisis levels.

5 million jobs in the EU

The results of our scenarios suggest that such a lending and investment plan would lead to the creation of an **additional 5 million jobs in the EU**, of which 3 million jobs would be in periphery. This

investment strategy would also lead to favourable results in terms of both government debt-to-GDP ratios (that would fall significantly) compared to the baseline and for fiscal deficits.

For a thorough analysis of this proposal and its impact on growth and jobs see [full paper by Giovanni Cozzi and Stephany Griffith-Jones](#)

