Rethinking the EU’s investment strategy: EFSI 2.0 needs a Social Pillar to address economic insecurity

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In his 2016 State of the Union statement, European Commission President Jean-Claude Juncker announced that the European Fund for Strategic Investment (EFSI), launched one year ago, would be extended until 2020, with the aim of mobilising €500 billion in investment. EFSI was portrayed as a major success that fostered the investment it targeted, but also practically demonstrated the positive effects of a “more political” Commission.

Arguably, EFSI 1.0 had to focus on shovel-ready projects to get the plan off the ground and EFSI has delivered additional investment. The three evaluations of the plan – conducted by the Commission, the European Investment Bank (EIB), and Ernst & Young – point out the need to “recalibrate” the plan to enhance additionality and technical assistance. Yet, EFSI’s focus on speedy implementation also impacted EU cohesion. An actual re-orientation towards social investments is a necessity for the next period if the Commission wants to address Europeans’ political and economic concerns.

Quick gains but at the expense of cohesion?

EFSI’s underlying philosophy (i.e. the shift “from grants to guarantees”) brings benefits, but the impact of such guarantees is limited in a context of low interest rates, especially in countries that still have fiscal space. Most investments have not gone to the countries with the biggest investment constraints. The need for speed has meant focusing on more developed member states, which can rely on a strong administrative capacity. This is reflected in the geographical distribution of EFSI with France, Italy, Germany and the United Kingdom topping the table of beneficiaries.

In the aftermath of a Brexit vote which put the light on criticism of the EU as an elitist project, the Commission could have decided to respond by offering a more inclusive economic development strategy, including through the strengthening of Social Europe. However, such re-orientation is still awaiting: only 4% of EFSI approved financing is currently dedicated to the social infrastructure sector. And though the Commission announced its ambition to increase that contribution in EFSI 2.0, the €3 billion promised by President Juncker still seem very limited to respond to the numerous healthcare, housing, education and integration challenges that Europe is currently facing.

An EFSI 2.0 that would predominantly focus on increasing capacity in the more developed member states and would fail to reach out to a wider part of the EU population could reinforce the feeling that the EU isn’t able to provide cohesion across the continent. In order to address EU citizens’ ‘Zukunftsangst’ (fear of the future)¹, the EU should thus offer a re-targeted investment project focused on developing human and social capital.

Investing in social capital to transform Europe’s economy

The Union is currently facing immense challenges, such as migration, security and climate change – all of which will have implications for the EU budget. The 2017 proposal for the next Multi-Financial Framework post-2020 is therefore likely to be subject to significant pressure. In addition, the looming prospect of Brexit could further impede Europe’s investment capacities as it will reduce the budget and might also impact the funding of the EIB. In this context, the EU needs to clearly set its priorities and ensure that its spending ambitions are sustainable.

To respond to the fundamental economic transition it is undergoing, Europe does need a transformed economy that allows for greater job mobility and flexibility. Yet, an investment strategy only aiming at modernising Europe’s economy is likely to raise legitimate concerns among e.g. low-skilled workers, which the EU needs to address.

Investments in human capital, for example training and education, have the two-fold benefit of increasing productivity and ensuring that its outcome is more widely shared across the population. Developing future-proof skills across populations, ranging from technical to soft skills – such as cooperation and empathy – will boost growth and equality. Well-targeted skills strategies based on quality apprenticeships have already proven successful in tackling youth unemployment in Germany and Austria. Exploring how the EU could provide assistance to set up and fund similar schemes in other member states would be worthwhile.

Increasing the political ownership of and support to initiatives such as the Youth Guarantee scheme could be one of the first steps of an investment strategy clearly targeting human and social capital. But to fully reconcile its citizens with its economic strategy, the EU should put much greater focus on social investment in its economic governance framework.

**Reforming EU economic governance to redirect funding towards the social sector**

Can the EU Investment Plan square the circle of higher productivity and less inequality in a world of more limited funding? The EU risks losing its attractiveness if institutional reforms aimed at clarifying the future of the euro area and framework reforms, e.g. to facilitate access to finance, are not rapidly conducted. The Advisory Hub, which offers to leverage on local knowledge to facilitate EFSI support across the EU, represents a step in the right direction. But the EU regulatory framework should also better reflect the specificities of long-term investments (on prudential requirements, taxation, or accounting standards) to help re-orientate private savings towards the cross-border infrastructure networks that Europe crucially needs.

Yet, the EU’s future growth project cannot only rely on such framework improvements and the continuation of the ECB’s monetary easing if it aims at enhancing prosperity more widely. Increasing the part of EFSI’s investment dedicated to the social infrastructure sector is crucial. But above all, enhancing the political support for the social dimension by e.g. creating a window dedicated to Social Business, as it exists for SMEs, should now be considered a priority for EFSI 2.0.

Ultimately, this objective also needs to be reflected in Europe’s economic governance. Stability and Growth Pact rules crucially need to be reviewed to allow for a wider exclusion of social and public investment expenditure. These reforms however require the Commission to shift from a neutral arbiter to a more pro-active role in economic policy-making. This is what a “more political Commission” should be all about.

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