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A Fistful of Euro Rescue Plans

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The EU is still in an economic crisis: investments during the past six years have plummeted by €430bn; Eurozone's inflation rate was at 0.4% in October 2014, well below the 2% target set by the European Central Bank, and thus dangerously close to deflation; unemployment numbers are high especially in France, Spain, Greece, and Italy; salaries have not grown even in Germany, Europe's healthiest economy; and anti-system parties with toxic nationalist narratives are gaining more power in countries such as France, the UK, and even Sweden. The debate on diagnosing the crisis still pits the austerity versus the economic stimulus camps.

When Jean Claude Juncker was campaigning for the European Parliament elections, he promised a €315bn investment plan to jumpstart the economy. He unveiled details of that plan on November 26, less than a month into his tenure.

The plan is a guarantee scheme that uses €21bn of real money to guarantee private investments in risky but needed infrastructure projects across the EU. Eight billion would come from the EU budget, while the rest would come from the European Investment Bank (EIB) and other projects. Juncker estimates the money would serve as a risk guarantee and achieve a leverage ratio of at least 15, and hence raise the promised €315bn in private investment capital.

The money would be disbursed for strategic infrastructure projects through an investment committee called the "European Fund for Strategic Investments" (EFSI) vetted by the European Investment Bank.

Member states have already filed 2,000 eligible projects worth €1.3 trillion, according to the Euobserver. The blog adds some spicy details: Belgium sent a 100-page list detailing projects and breaking them down on national and regional priorities; Spain only sent a general request on half of a page; Malta's proposals included pictures of harbors and ruins.

Juncker said the projects would be selected based on quality and not geographical distribution. Yet projects in countries most affected by the financial crisis, such as Spain, Greece, and Italy, will be prioritized.

Juncker's plan has come under intense scrutiny: Martin Schulz resembled the scheme to the "casino capitalism" that triggered the 2008 financial crisis in the first place; the Greens warn of the socialization of risks and "privatization of profits." The plan has the backing of EPP (Christian Democrats), S&D (Social Democrats), and ALDE (pro-business liberals) in the European Parliament.

EU Commission President Jean-Claude Juncker © EU 2014

Even if the plan is successful and raises the promised €315bn, would it be enough? By comparison, the US government invested 4% of the GDP – $787bn in the 2009 American Recovery and Reinvestment Act, at a population of 300 million. The EU has 500 million inhabitants, making the investment package comparably underfunded.

A History of EU Salvage Plans

A 2008 European Economic Recovery Plan (EERP) of €200bn had a "sizeable although short-lived impact" on the GDP of Eurozone countries, according to a study conducted by ECB's Research Directorate. Described at the time by the New York Times as a "giant stimulus," the plan amounted mainly to tax cuts, social measures, and investment incentives implemented by each national government with little coherence.

A 2012 "Compact for Growth and Jobs Plan" worth €120bn has not worked. EIB managed to increase its capital by €10bn as planned. Member states started contributing in order to increase the lending capacity to €60bn. But the money stayed unused in bank coffers: most projects funded were in Germany, where the risk was lower. The culprit? EIB's "fetish" for maintaining its shiny triple A credit rating, says Financial Times. Juncker's 2014 plan would use the €21bn from the EU budget and the EIB to guarantee risk

To QE or not to QE?

Mario Draghi, president of the European Central Bank (ECB), took several measures to stabilize the Eurozone and stimulate investment. The most notable were:

- small scale government bond buying through the "Securities Markets Programme" (SMT) between 2010 and 2012. ECB only purchased bonds issued by Greece, Ireland, Italy, Spain, and Portugal. As of September 2012, the amounts were transferred to Outright Monetary Transaction Accounts (OMT). As of December 2014, the accounts had a remaining balance of €143bn
- reduced the short-term deposit rate for banks to negative .01% in June 2014, and to –.02 in September

- issued three covered bond (secured debt) purchase programs: the first CBPP of €60bn ended in June 2010; CBPP2 ended in October 2012 with only €16bn spent out of the planned €40b; while CBPP3 started in October 2014 and is intended for two years
- launched a program to purchase Asset Backed Securities in October 2014, the program carried a €600mn balance in December

Yet Draghi did not announce a full-fledged government bond-buying program (Quantitative Easing, QE) following ECB's board meeting on December 4. The QE measures were opposed by ECB's German board member, Sabine Lautenschläger, along with the German, Austrian, and Dutch central bank governors. Still, the package might receive a green light at ECB's January 22 meeting. According to unknown sources quoted by the Frankfurter Allgemeine Zeitung, the ECB might conduct more than €1 trillion balance sheet expansion. By comparison, the Federal Reserve's QE program totaled more than $4.4 trillion between 2009 and 2014.

European Central Bank President Mario Draghi © EU 2014

Germany fears that QE measures might encourage the governments of Greece, Italy, or Spain to excessive spending. German officials are confident that ECB's programs would yield results eventually. However the poor outcome of ECB's latest stimulus program might silence the QE critics.

ECB auctioned off almost €400bn in September and again in December in a targeted long-term refinancing operation (TLTRO). The relatively cheap money (0.15% interest rate) available to banks at the December auction carried strict quotas to be lent to businesses and households, excluding mortgages. Not that many banks were interested, and only €130bn were taken up out of the total pool of €317bn. Six similar auctions are scheduled over the next two years.

EuroPoint: The pro and anti-austerity debate is keeping the ECB from launching a full-fledged Quantitative Easing program; several other salvage plans launched by Brussels have come and failed. Will Juncker's €315bn investment plan be any different?