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Rome Investment Forum 2016
Rome, 16 December 2016

INVESTMENT IN INNOVATION AND INFRASTRUCTURES
BY VALERIA RONZITTI, CEEP GENERAL SECRETARY

M. Chairman,

Dear Ms Bonafé,

Dear Vice-President Farina,

Dear colleagues,

Ladies and Gentlemen,

First of all, let me thank you for letting me the opportunity to address the Rome Investment Forum and make the case for investment policies. While we can salute the political will of the European Commission to boost investments, CEEP keeps believing that more should be done.

1. A NEW PARADIGM ON INVESTMENTS

We can say that for the past few years, the narrative and the policy choices made around ”investment” has changed. Since Jean-Claude Juncker and his team entered the European Commission, a clear impetus has been launched to trigger investments in the EU. The ”Juncker Plan” shows best the new political will, with its vision and the wish to act quickly.

So far, we assess the balance sheet of the European Fund for Strategic Investments as positive, despite some little hiccups such as:

- We believe that not enough is being done regarding social infrastructures;
- The focus has relied too strongly on ”classic” physical infrastructures, and not enough on innovation.

There are obviously exceptions, and some projects included in the Investment Plan promote a different vision. I can mention the project on Smart Public Building in Greece, and the development and the better use of Internet of Things technologies in public buildings. But such examples remain rare.

In this context, CEEP welcomes the proposal to prolong the lifespan of the EFSI, and believes that a step forward should be completed by fixing the loopholes noticed in the first version of the plan:

- There must be an increased on the additionality principle;
- The coordination between EFSI and the other financial instrustruments (ESIF, Horizon 2020, Connecting Europe Facility, structural funds,...) must be improved;
- The geographic coverage could be reinforced.

2. A CALL FOR A HONEST AND NON-DOGMATIC REVIEW OF THE STABILITY AND GROWTH PACT

The Investment Plan alone will not be enough, though. Investments in social infrastructures, but more in general all kinds of investments in public infrastructure, will not reach the desired level if policy makers do not adopt a comprehensive approach to what we consider as obstacles to investment. There is a persistent paradox at European level between the demand for increasing budgetary discipline, and pointing out the lack of investments as one of the main reasons for the persistent slow pace of recovery.

We must now reverse the stagnation in the public capital stock we have seen since the crisis with investments aimed at increasing productivity. I feel like we suffer from a clear lack of understanding of the added value of some public investment.
An example, with expenditure in education and health care. Such investments contributes to reinforcing the human capital stock, enhancing the supply side of the economy and contributing to growth. Howver, it is still mostly considered to be current expenditure rather than investment.

The main problem is that the fiscal rules do not make a distinction between operational expenditures and investments. The situation has become even worse since the application of the European System of National and Regional Accounts (ESA 2010, in force since September 2014).

This means in practice that public investments are calculated in the SGP's deficit and debt criteria over the short period of the construction duration, whereas they should be considered as long-term investments and written off over a far longer period of 15 to 20 years.

This issue may only be the tip of the iceberg when we consider the full consequences of the SGP on public investment in Europe. That is why we believe that we must now take a step back and decide collectively which form of expenses are indispensable to our relaunch and should accordingly be supported by the EU and its Member States, not only politically but also technically. This implies an honest and non-dogmatic review of SGPs, including its interpretative communication of 2015.

3. CONCLUSION

In conclusion, we can try to figure out what is the missing link. The evidence supporting the call for investments is clear. The academic case calling for increased investment to support economic growth has been made. Only the political will to go further must be tackled.

My advice would be to use events such as the Rome Investment Forum as a mean of pressure. We need to stop ”speaking to ourselves”, but now need to reach out to those who still need to be convinced.