POSITION PAPER

ENDING THE CRISIS AND BUILDING NEW SUSTAINABLE AND SHARED PROSPERITY - OUR CALL FOR AN AMBITIOUS EUROPEAN INVESTMENT STRATEGY

OUT OF THE CRISIS - A BETTER ECONOMIC MODEL FOR EUROPE

Economic union that works for you

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1 NO TIME TO WASTE

Seven years into the economic crisis, Europe is at risk of sliding back into recession and, beyond, to enter a prolonged period of low growth, low inflation, and persistent unemployment, if not secular stagnation.

Inequality among social groups and the gap between member states are both on the rise. Twenty-five million people, including five million young people, cannot find a job. Poverty and social exclusion have exploded as too many women and young people, in particular, are unemployed or in precarious jobs, thereby further increasing labour market discrimination. One hundred and twenty-four million people in Europe are exposed to poverty, including rising in-work poverty, and child poverty is at shameful levels - in some countries every third child lives below the poverty line.

Certain member states have been particularly affected by the crisis, and have had to undergo severe economic and social adjustments forced upon them by the troikas, which has contributed to increasing divides within the EU and the Eurozone.

At the same time, Europe has failed to find an adequate response to the immense climate and energy challenges we are facing, and too little progress is being made towards the wider sustainability of our production and consumption patterns.

Many firms, especially smaller and medium-sized ones, are losing ground, failing to invest in productive capacity ad higher productivity. Europe’s industrial base is shrinking. Its knowledge-based and technological strengths are endangered, and no real steps have been taken towards a well-functioning digital economy.

The ambitious long term development objectives in the Europe 2020 strategy and in the 2030 Climate and Energy Package - inclusive growth, transition towards a sustainable and energy-efficient economy - are close to becoming unattainable, and mid-term goals will not be met.

Europe has failed to resolve the crisis not because of external factors, but because of misguided economic policies and persistent imbalances. Too much focus has been put on austerity, and too little on reviving sustainable growth. Both private and public investment - now close to 20% below their pre-crisis level - have suffered, reaching levels too low to sustain a recovery and too weak to underpin tomorrow’s prosperity. This needs to stop. There is no time to waste and no room for new mistakes.

As the centre-piece of an ambitious European investment strategy, we are bringing forward a six-year investment plan for new public and private investments of €800 billion, to be deployed during 2015-2020. The plan we propose will enable the EU to generate this substantial volume of fresh investment with a very limited initial burden on public finances.

This investment must be truly additional to existing means within the EU budget or EIB Group activities. It cannot just rely on exaggerated leveraging of innovative financial instruments or vehicles already agreed within the 2014-2020 Multi-annual Financial Framework.

Our investment plan combines three new elements:

1. First, and foremost, a new European Investment Instrument (EII) could progressively build up a new public financial capacity of €400 billion by supplementing its capital of €100 billion, constituted through a gradually paid-in capital by member states and an EU budget guarantee, with an additional €300 billion of borrowing on capital markets. The paid-in capital by member states would be exempted from the calculation of their national public deficits and debt levels. With this public financial capacity of €400 billion, the EII could attract private investment of €100 billion for the co-financing of infrastructure projects, financial support towards energy efficiency investments, and lending in support of industrial innovation by SMEs. This would add up to total new public and private investment of around €500 billion by 2020.

2. As a complement, the European Stability Mechanism's existing capital could be called upon - under the condition of maintaining its financial stability - to provide an innovative insurance system in support of new private investment in sustainable infrastructures and renewables projects to generate an additional private investment volume estimated at €150 billion over the six-year period.

3. Furthermore, the EIB could increase its support to public and private investment for riskier projects by using progressively available EIB resources coming from its annual profits and from undisbursed dividends. This would take the EIB beyond its recently strengthened investment targets following its 2012 capital increase, but without endangering its AAA rating. By gradually investing through the EIB a cumulated €38 billion over six years for projects in infrastructure and loans, guarantees and other forms of credit enhancements and equity mechanisms in industrial innovation, an estimated additional total public and private investment of <u>€152 billion</u> could be

achieved. In any case, the EIB Group's future operational plan after 2015 must at the very least be as ambitious as its 2013-2015 plan.

This proposal is not only about new resources, but about a clear direction and a common purpose for Europe's future. The plan must, therefore, be part of a broader vision for Europe's future, resting on a renewed long-term strategy for sustainable development, while enabling the mid-term fulfillment of the Europe2020 targets.

2 SUSTAINABLE GROWTH AND QUALITY JOBS: BOOSTING PRODUCTIVE INVESTMENT AND ACHIEVING POSITIVE REFORMS AS PART OF A BROADER VISION

European and national policies must shift the economy from its current dismal trajectory to a higher sustainable growth path, on which Europe's economic, employment, social and environmental challenges can be addressed with equal force and determination. In the mid-term, the ambition expressed in the five headline targets of the Europe 2020 strategy must be maintained and, where-ever possible, increased, despite the current setbacks due to the crisis and the lack of proper implementation of policies at European and national levels.

To re-assert control of its future, Europe must learn from the policy mistakes made during the crisis. In place of inconsistent and even conflicting national policies, premised on a narrow and self-defeating concept of national interests, European recovery will require coordinated action at EU and national level, founded on a common vision and common interest, and setting a new policy agenda for sustainable growth and quality jobs, embedded in a renewed European strategy for sustainable development.

This strategy will require the completion of the Economic and Monetary Union. To remain viable in the long run, the euro zone must reinforce its economic union, notably through a common budgetary capacity and a radical strengthening of democratic accountability for decisions on European economic governance, without which there can be no legitimacy and no prospect of winning the hearts and minds of disenchanted Europeans. This task should go hand in hand with the completion of the Single Market and support for European re-industrialisation.

As of mid-2014, monetary policy in the euro zone has hit the ’zero lower bound’ on nominal interest rates, meaning that the ECB can henceforth stimulate economic recovery mainly through expanding its balance sheet and improving transmission mechanisms rather than by further lowering interest rates. In this context, fiscal and structural policies come to play an even more important role in promoting growth than before. Economic policy coordination needs to be stepped up to address questions of aggregate demand and investment, particularly within the euro zone.

The principal instrument of change must be much stronger public and private productive investment. Investment levels are currently far too low to create quality jobs on the scale needed, and to transform growth into ecologically sustainable production and consumption.

Investment needs to match the vast scale of the challenges ahead. Infrastructure investment needs alone have been estimated by the European Commission at close to 2 trillion euros, covering transport, energy and broadband networks. Other essential investment needs, often requiring substantial public support, must also be much better addressed - such as in energy efficiency, R&D, innovation, creation of a digital single market, including the digitalisation of public administrations, education and training, labour market transitions, childcare facilities and health. Adequate levels of productive public investment are critical for the financing of public goods, and for triggering private investment, which is also critically low, and will need to generate several million new quality jobs.

Any European investment plan will, however, only succeed if it is on a sufficient scale, well-directed, and accompanied by:

- well designed economic and social reform at national level

- a growth-enhancing implementation of fiscal rules in support of productive

public investment

- an enhanced Europe 2020 strategy for sustainable development and an

ambitious 2050 Climate and Energy package

2a. A wide set of well-designed economic and social reforms should be undertaken at national level to generate major economic and social gains. Current structural reforms encouraged by the Commission do not always strike the best balance between economic efficiency and social progress, and do tend to overlook the mutually enhancing effects of well-balanced economic and social reforms.

Such reforms should for example aim at ensuring full and equal access to high quality education and training systems, to good childcare facilities and to properly financedhealth care systems, as well as at ensuring equal participation of women and men in the labour market, notably through a future maternity leave directive, at eliminating the pay gap, and at developing fair and effective tax policy systems which successfully eliminate tax fraud and evasion, avoid tax avoidance practices, foster greater equality in society and support sustainable production and consumption practices.

2b. Member states conducting ambitious positive reforms must be supported through a smarter use of European fiscal rules that stimulates growth and job creation without undermining fiscal discipline, in particular to support the national public investment these reforms will require in order to succeed. The flexibility in the existing fiscal rules will need to be properly interpreted and fully implemented by building on the existing "investment clause", as defined by the European Commission in July 2013. In its current form, however, this clause is too restrictive on several points, which are an obstacle to the revival of productive public investment. An improved investment clause must be defined to put that right.

This could include, first and foremost, the exemption of the national contributions to the new European Investment Instrument from deficit and debt calculations, and furthermore the exclusion from deficit calculations of national contributions (based on GNI and VAT) to the EU budget, as well as of national public co-financing for national and regional level investments co-financed by European funds (in particular the Structural and Investment Funds, the Connecting Europe Facility and the Youth Employment Initiative), as well as certain targeted and strategic national public investment expenditures within the framework of Europe 2020 goals.

Productive public investment must be revived above all in the countries still suffering most from the crisis. If new investment is concentrated in Europe’s strongest economies, then the divergence between strongest and weakest - one of the underlying causes of the Eurozone crisis - will widen and the Eurozone’s longer-term stability will be undermined. This is especially critical in the light of extremely high unemployment levels in those countries, highest among the young. Generating new quality employment at adequate levels in those countries must be specifically addressed in a European investment strategy, by triggering a sense of European solidarity.

2c. The Europe 2020 strategy, whose mid-term review is imminent, must be redesigned to make it a credible and ambitious European strategy for sustainable development. The level of ambition expressed in the Europe 2020 headline targets must not be lowered, and where-ever possible increased, although the timeframe for some of the targets may have to be extended. Binding targeting should be considered in certain areas, in particular on the poverty reduction target. Crucially, the re-launched Europe 2020 Strategy must have a credible link to the investment package. The package should be designed on the basis of the existing strategy, and stand ready to be adjusted in the course of next year in order to fully fit the second phase of the strategy. Beyond this time horizon, Europe must adopt an ambitious 2050 Climate and Energy package.

There must be coherence between political objectives and financial means at European and national levels, to be duly reflected in country specific recommendations. This should be one step among others to ensure that political commitments in the strategy can count on adequate financial support at European and national level. There must be no objective adopted by the European Union without a corresponding financing plan established by the Commission in cooperation with each member state to back up its implementation. New objectives without adequate means will only feed more disillusion among European citizens. This also applies very much to the European budget as such.

3 EUROPE IN TRANSITION: INVESTMENT PRIORITIES

Investment is the most powerful instrument Europe has to reshape and modernise its economy. That means that what matters is not just the quantity of investment but also how the money is invested. The new European investment strategy offers an opportunity not just to restore growth and to create quality jobs, but to tackle the defining challenges of the 21st century - such as climate change, energy independence, resource efficiency, the transition towards a digital society, global competition and rising inequality. We need an investment strategy shaped around a vision of the kind of Europe we are trying to build.

A European investment plan should respect the following principles:

a. Investments should contribute to sustainable development, including quality jobs and green growth. This seems logical but it also implies that investments in sectors or projects which do not contribute to such goals are not to be supported by public funds. This principle will help identify the right investment choices: investing in renewable energy instead of fossil energies, investing in public transport - including electric mobility - instead of additional highways, investing in sustainable alternatives to freight transport by road, investing in energy efficiency and waste reduction, investing in new promising fields such as maritime renewable energy, or investing in the circular economy. Such investment would also lead to the creation of decent jobs.

b. Investments should be intimately linked to innovation, contribute to and take full advantage of the process of digitalisation of the economy and of society. 'Smart' is the key word here and research and development is crucial for this purpose. Investments should help to develop an integrated, innovation-based industrial policy rooted in a competitive Single Market, backed by adequate funding, and focused on developing the industrial and research eco-systems which will help innovation to flourish, not least within SMEs.

c. Investments should generate clear positive externalities for society as a whole instead of some specific sectors. The investments should result in environmental, social and economic progress, strongly foster quality employment creation, enhance well-being for citizens and move our society forward.

A European investment plan should respect the principles mentioned above and address the following fields:

the mitigation of and adaptation to climate change Investments in the energy sector have to be made today: for every euro not invested before 2020, €4.30 would otherwise be needed after 2020 to achieve the same results, just to offset the extra emissions generated. So investing today allows us to reap the benefits much sooner, but also to avoid passing on needlessly high bills to future generations.

Infrastructure investment alone will require funding of up to €2 trillion over a decade in transport, energy and communication networks. Upfront public financing is needed. Such investments often require high levels of public investment in order to attract sufficient private financing of around 50% or more.

In addition, high emphasis should be placed on energy efficiency. Today, the need for investments, as much as the clear and tangible merits from energy efficiency actions, are still very much overlooked. Unrightfully so, as energy efficiency is the fastest and cheapest way to get the energy bills down, boost energy security, create jobs and lower emissions. On top of that, energy efficiency investments have the great advantage of paying themselves back. Today, a payback time of 5 to 7 years is average, but as we move along, technologies will improve and payback times will further diminish. So even given that high investments are required - over €50 billion per year to reach our energy efficiency targets - this money will not be lost but will be earned back in a few years' time. This is also the reason why different financial instruments can be used instead of classic financing through grants. These smart techniques will be able to leverage public investments and attract private money in a fast and efficient way.

Another great advantage of investing in energy efficiency is the high amount of local, long lasting jobs that can be created. Take the building sector for example. Buildings currently account for 40% of the EU energy demand. Deep renovation can cut this by 80%, saving the EU over 30% of its total energy use, meanwhile creating 2 million jobs by 2020. If these renovations are primarily carried out in public and social buildings, such as schools, hospitals and social housing projects, they will contribute significantly to the fight against social exclusion and energy poverty.

The European Commission should use the 7th EAP and the Roadmap for a Resource-Efficient Europe as a framework for its environmental policy with the Life programme as an important instrument. Investments connected to the fight against climate should also reflect the need to invest in climate change mitigation. But it needs to go further than that.

Sustainable transport and sustainable mobility are crucial to the fight against climate change and clear investment priorities are needed. Within the TEN-T framework, priority should be given to rail and water related investments, including for their renewal, infrastructure for cyclists and urban public transport, networks for alternative fuels and electrical vehicle charging stations. Existing subsidies for investments in highways, freight transport by road, and other unsustainable modes of transport, should be phased out and redirected towards more sustainable alternatives, while taking account of territorial cohesion needs.

The cost of EU infrastructure development to match the demand for transport has been estimated at over €1.5 trillion from 2010 to 2030. Also, infrastructure is unequally developed in the Eastern and Western parts of the EU. In this context, we observe that most TEN-T projects are long term and that the network is still far from completed. Investment in transport infrastructure should be increased by triggering private investment and allocating public resources for instance via the Connecting Europe Facility. EU budget resources should be targeted first at projects with the greatest European added value, such as cross-border projects and European technological projects.

The EIB/Commission/Member States Taskforce will soon provide a list of viable investments of European significance that are currently not realised due to economic, regulatory or other obstacles, in particular identifying strategic investments with European value that could be undertaken in the short run. This list should exclude any project that does not match Europe's commitment to a sustainable and energy efficient economy or does not meet the principles set out above. Similarly, the EIB must support only sustainable projects, with an emphasis on renewable energy, infrastructure and energy efficiency projects, and climate change mitigation, while rapidly phasing out harmful and market distorting support for nuclear and fossil energy technologies.

b. Investing in the digital society

The digital economy is growing seven times faster than the rest of the economy. Digital offers the EU one of the most promising paths to economic recovery and quality job creation. Data from countries with successful digital sectors, show that the impact on employment of such investment is one of the highest of the economy. For reference, in the US, for each new job in traditional manufacturing sectors, 1.6 new ones are created in local services, while for high tech jobs this number is more than tripled. The digital sector is one of the most promising paths to reduce unemployment.

We need to create framework conditions to support the development of the digital sector. This means first of all to lay good foundations, allowing every European to access a fast internet connection.

However, at present the EU does not take sufficient advantage of these evolutions, due to a range of factors. Therefore, well-chosen investments (particularly but not exclusively in high-quality internet broadband infrastructures) are needed to support this digital transition. The decrease from €9 to €1 billion in the EU budget for the digital projects of the 2014-2020 "Connecting Europe Facility" is therefore deeply disappointing, and should be reviewed: much more will be needed to reach the EU's goals in this field.

The competent national authorities need a policy framework that gives them the right tools and offers market players the necessary regulatory certainty. Unfortunately, private actors mostly focus on urban areas because they are more profitable. More isolated and remote places, which require higher investments, are often left behind. So the EU must invest massively in optimal and high-speed internet broadband infrastructures for all. We should make the internet available to every European, and rural Europe too must be digitally competitive, in line with the Digital Agenda targets. By 2020 half of European households should subscribe to at least 100 Mbps, while 30 Mbps should be available to all Europeans.

Nevertheless, specific investment are not only needed in broadband infrastructures - no substantial shift towards a digital economy and single market will take place without the modernisation and digitalisation of public administration systems, including eGovernment, eCustoms, eHealth and universally accessible online services for citizens and businesses, notably smaller enterprises. The advantages of digitalisation should also be exploited fully in the working environment. Teleconferencing and teleworking for instance can boost efficiency and diminish unnecessary commuting.

Furthermore, the emergence of a digital society reaches well beyond technical infrastructure and use. The digital agenda is a cross-cutting issue which touches upon different policy fields. The key challenge for Europe will be take a step forward and lay the foundations for building a digital society not only a digital market. Therefore, it is vital to not restrict Europe's investments in the digital economy to high speed internet broadband infrastructures. To fully exploit the potential of a digital society for Europe we also need to intensify our investments in digital awareness and competence of European citizens, as well as digital research and development, foster creative industries in the digital field, and develop a favourable environment for the expansion of smart digital devices and services in everyday life.

Europe needs to become a forerunner in digital trends as this will increase the industrial base of Europe as such.

c. Investing in human capital and people

Social investment is Europe's most important asset, driving our economic competitiveness and our human well-being and health, helping to improve social inclusion, individual empowerment and gender equality. Without stronger social investment, industrial and economic development will be held back and Europe's future prosperity and competitiveness damaged.

The skills, energies and creativity of Europeans are Europe's competitive edge in the global economy. Investments in education, research and innovation are crucial components of the economic crisis exit strategy. However, human capital investments have suffered during the crisis as public and private budgets were under pressure, while many existing jobs have disappeared and new ones often require different and higher-level skills. Education and training systems must therefore be more progressive, accessible, targeted, and flexible to meet the needs and aspirations of young people, students, workers or older people, who want to enter or re-enter the labour market now but also in the future.

The principal responsibilities in this area lie with national governments, but there is a well-established role for the EU budget - which has been reinforced in this field by the 2014-20 MFF - to support human capital investment. Priorities for additional investment should include an increase in the financing of the Erasmus+ programme, widening its field of action to high school students; the extension of the Youth Guarantee to all people under 30 supported by an increase of the Youth Employment Initiative means to €15 billion, while guaranteeing that there is no disruption of funding for the YEI after 31st of December 2015.

Political and economic realities of austerity are also damaging the cultural heritage Europe has. Culture and creative industries must not fall victim to the crisis but help Europe to recover from it as they are a powerful and dynamic social and economic tool that can make a great contribution to intelligent, sustainable and inclusive growth and creation of jobs boosting Europe's economic development, international prestige and social cohesion. These sectors also face major challenges stemming from the digital shift and globalisation, as well as from a high fragmentation of markets along cultural and linguistic lines. Access to finance remains a major difficulty. Therefore, it is necessary that we invest in culture and creativity, cultural tourism, and cultural heritage and digitisation, and create long-term cultural initiatives.

Gender equality should be mainstreamed in all policies in this field.

4 EUROPEAN INSTRUMENTS TO SUPPORT INVESTMENT NEEDS IN EUROPE

In order to achieve a strong and sustained increase in public and private investment, existing approaches need to be enhanced and combined rapidly with new approaches. This needs to be compatible with current budgetary constraints, while keeping in mind that a certain degree of flexibility in favour of productive public investment at national levels is not only unavoidable, but also fully justified economically in the current context and in the wake of years of under-investment. To bring debt/GDP ratios down, Europe needs economic growth. With monetary policy at the zero lower bound, this calls for excluding certain types of productive national investment from deficit calculations.

As a central part of an ambitious European investment strategy, we propose a six-year €800 billion public and private investment plan to be deployed over 2015-2020[1]. The MFF 2014-20 will play and important role in stimulating investment across the EU in the next decade, but its resources will not be sufficient to achieve the level of investment which Europe needs for a robust recovery. Existing EU budget instruments - including innovative financial instruments and vehicles - need to be used to the full. Some of them will have to be reviewed, such as project bonds, to make them more effective. This implies that the forthcoming revision of the 2014-20 MFF should be anticipated, to happen as early as possible before 2016, and lead to budgetary reinforcement.

But, in parallel, we should also explore new solutions.

Existing instruments alone will not provide enough additional public investment, notably due to the high level of public investment needed to attract private investment in infrastructure projects, and due to the fact that many projects in the areas of energy efficiency or industrial innovation are currently below commercial viability: the returns required by private investors are too high to be affordable. The new European investment plan must therefore include a new investment vehicle, which in our plan is called a «European Investment Instrument» (EII). This instrument alone could provide a public financial capacity of €400 billion over six years, based on gradually paid-in capital of €100 billion and borrowing on capital markets of €300 billion. This would not have to burden the levels of national public debts and deficits as these capital contributions could be exempted, similar to what was done in the case of the ESM.

[1] The details of the plan are presented in a diagram hereafter.

With this public financial capacity of €400 billion, the EII could attract additional investment of €100 billion for the co-financing of infrastructure projects, financial support towards energy efficiency investments, and lending in support of industrial innovation by SMEs. This would add up to total new public and private investment of around €500 billion by 2020.

The European Investment Instrument must be set up as quickly as possible, avoiding unnecessary political or legal hurdles. One solution is to do so within the EIB Group and to base the instrument on gradually paid-in capital by the 28 member states and on an EU budget guarantee similar to the one already used for the EIB's operations outside the EU. An alternative is to set up such an instrument under a new governance structure, also with member state capital contributions and an EU budget guarantee, but this should then include the Commission in its board and should work closely with the EIB on project investments. This latter option could also involve the mobilisation of the unused part of the €60 billion of the EFSM for part of the capital constitution of the instrument, bearing in mind that the EFSM already benefits from an EU budget guarantee. It should also be explored under which conditions the European Investment Instrument could at some point be opened partly to broader financing by the public.

Whatever form of set-up will in the end be politically more feasible, strengthened democratic accountability and control within the Community framework, and with a strong role for the European Parliament in this respect, should be ensured in any case.

While the paid-in capital of the EIB constitutes only a fraction of their total committed capital, fully paid-in capital for the EII is justified in order to enable it to fulfill a specific mission: contribute to Europe's job-rich recovery and the transition towards a better growth model at a time when the room for additional monetary policy stimulus is extremely limited and Europe has underinvested for several years. The EII can do so by unlocking necessary private investment in strategically important, close-to-viable projects, which cannot be supported today by existing tools as they require a light element of subsidy, for instance in the form of interest-free loans or equity mechanisms.

The European Investment Instrument could also, either alongside or within the EIB Group, form part of a future Eurosystem of European and national investment banks in the longer run in order to further develop a strong pan-European financial capacity for investment and effective interaction between the European and national levels of action. In the short run, cooperation between the EIB and existing national and regional long-term investment banks should already be reinforced.

In this context, the EII should ensure that countries most affected by the crisis, including countries under adjustment programme, are sufficiently targeted by its investments. It must be avoided that investment is primarily channelled towards stronger national economies, thereby further aggravating Europe's economic and social divergences.

In addition to the creation of such a powerful investment instrument, the European Stability Mechanism could be called upon to provide additional investment support through an insurance system and aim at new private investment of €150 billion over six years, provided that this is done in a way as to maintain its financial stability. At EIB Group level, untapped investment potential also lies in the potential use of future profits and undisbursed dividends, of around €38 billion over the 2015-20 period, based also on the repayment of the extraordinary investments undertaken by the EIB Group in the first stages of the economic crisis; These profits could be mobilised for new and valuable projects in infrastructure and in industrial innovation with a higher risk profile, and thereby generate an additional total investment of €150 billion.

Investments to be achieved through these public channels must be flexible enough to finance both long term and large scale projects, without following a method of pure 'juste retour', and smaller local and regional projects to ensure fast implementation. They should also contribute to reducing the divergence among member states within the EU by channelling a sufficiently large investment share to those countries with the greatest economic and social difficulties, as well as the most serious budgetary constraints. This will only bear fruit, however, if sufficient administrative and technical capacity is found at local, regional and national levels; for this reason, the investment plan should set aside sufficient resources for technical assistance, and the Commission and the EIB Group should strengthen their own advisory capacity in this regard.

For the necessary investment in human capital, our third investment priority, better use of resources within the EU budget should first of all be ensured, and should include reinforced financing of the Youth Employment Initiative by €15 billion to extend it to all youth under 30 as of 1st January 2016. Reinforcement of the European Social Fund or dedicated financial support for the development of dual training (apprenticeships) and high-quality lifelong learning systems should also be envisaged. Most critically, adequate funding of the various fields of human capital through national budgets must in future be secured by revising the implementation of European fiscal rules in close connection to well-designed economic and social reforms.

Beyond the plan outlined in this section, and the important contribution it could make to reducing Europe's major investment deficit, as well as even beyond the space for national public investment that should now finally be created within the existing fiscal rules, it should be recalled that national governments must also urgently and forcefully address the revenue side of their national budgets by eliminating the huge tax losses incurred since many years by tax evasion, tax fraud and tax avoidance schemes, amounting to an annual one trillion euros.

An important specific improvement should also come as soon as possible from the setting up of the Financial Transactions Tax in those member states working jointly on its implementation - expected to generate €35 billion of tax revenue per year at EU level.

One should therefore not forget that reducing these huge tax losses in significant proportions would provide decisive new fiscal room for additional investment at national levels in a critical economic phase. This will require bold new initiatives at national, but also at European level, especially in the field of corporate taxation.

5 A LONG TERM APPROACH IS REQUIRED

Beyond the urgency of putting an end to the crisis, Europe needs to find a new and long term development trajectory, resting on a common vision of the future - a New Deal between Europe's institutions, its member states and the widest possible majority of its citizens.

Europe, like other parts of the world, faces the need to re-define its future in the face of a very rapidly changing world and of major transformational challenges, above all the imperative need to develop new forms of growth compatible with the long-term survival of our planet.

The most worrying experience during the crisis in this respect was Europe's great difficulty in governing itself under major stress. Compared to other economic powers, not less affected by the crisis, Europe displayed the limits of its complex governance structures and processes, in particular the incomplete design of the EMU, and the risk that conflicting national visions and interests can block necessary common solutions.

As a result, Europe was repeatedly slow in responding to the crisis, and fell hostage to national approaches to the detriment of a European solution. This nearly led to the break-up of monetary union, provoked a wave of disenchantment and euroscepticism, and continues to generate high economic and social costs.

To equip Europe to cope better with the challenges - some already known, others not - which it will face in this century, governance itself must be improved through:

- the completion of economic and monetary union, in order to strengthen its capacity to generate coherent, mutually reinforcing and growth-oriented national economic policies, to properly respond to cyclical downturns and to asymmetric shocks, and to achieve sufficiently high levels of productive public investment;

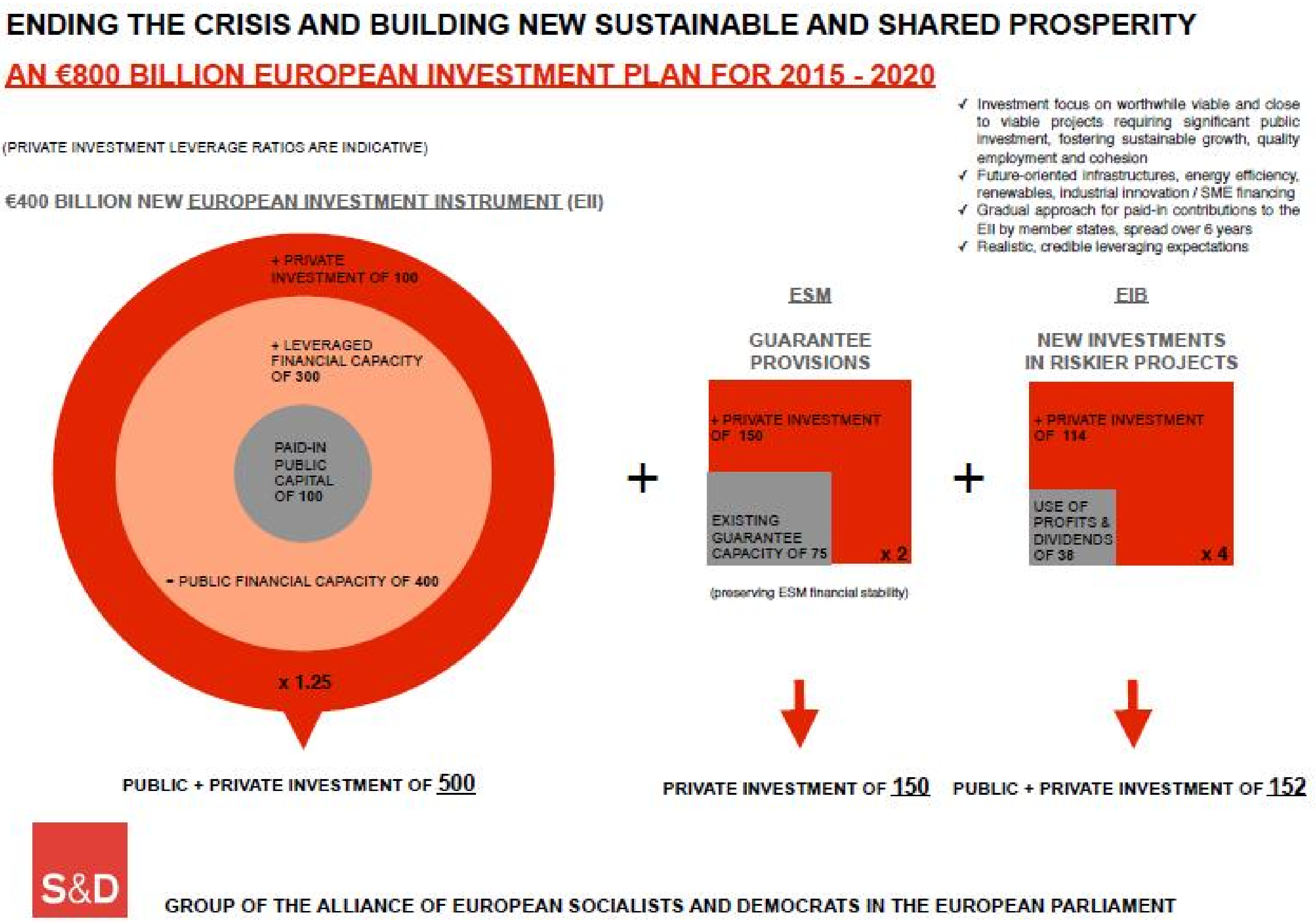
- a new strategy of economic, territorial and social cohesion to reverse the current trends towards growing divergence and socio-economic inequalities in and between member states, supported by adequate instruments and financial resources, including for investment;

- a set of permanent European public investment channels for productive public investment growing out of the investment strategy currently being designed, and leading to the future use of Eurobonds for the financing of investment of European interest, through a European investment agency;

- a sufficiently strong and well-structured European budget with an enhanced capacity to address European challenges in the economic, social and environmental fields, and relying on a profoundly revised system of financing;

- a renewed and comprehensive sustainable development strategy across the economic, social and environmental fields backed up by a coherent set of sectorspecific policy strategies and objectives, and corresponding financial implementation plans enshrined within the annual European semester process. A major aim of this strategy must be the creation of quality employment.

ANNEX


ENDING THE CRISIS AND BUILDING NEW SUSTAINABLE AND SHARED PROSPERITY
AN €800 BILLION EUROPEAN INVESTMENT PLAN FOR 2015 - 2020
(PRIVATE INVESTMENT LEVERAGE RATIOS ARE INDICATIVE)
€400 BILLION NEW EUROPEAN INVESTMENT INSTRUMENT (EII)
✓ Investment focus on worthwhile viable and close to viable projects requiring significant public investment, fostering sustainable growth, quality employment and cohesion
✓ Future-oriented infrastructures, energy efficiency, renewables, industrial innovation / SME financing
✓ Gradual approach for paid-in contributions to the EII by member states, spread over 6 years
✓ Realistic, credible leveraging expectations
+ PRIVATE INVESTMENT OF 100
+ LEVERAGED FINANCIAL CAPACITY OF 300
PAID-IN PUBLIC CAPITAL OF 100
= PUBLIC FINANCIAL CAPACITY OF 400
x 1.25
PUBLIC + PRIVATE INVESTMENT OF 500
+
ESM
GUARANTEE PROVISIONS
+ PRIVATE INVESTMENT OF 150
EXISTING GUARANTEE CAPACITY OF 75
x 2
(preserving ESM financial stability)
PRIVATE INVESTMENT OF 150
+
EIB
NEW INVESTMENTS IN RISKIER PROJECTS
+ PRIVATE INVESTMENT OF 114
USE OF PROFITS & DIVIDENDS OF 38
x 4
PUBLIC + PRIVATE INVESTMENT OF 152
S&D
GROUP OF THE ALLIANCE OF EUROPEAN SOCIALISTS AND DEMOCRATS IN THE EUROPEAN PARLIAMENT