PROGRESSIVE YEARBOOK 2020

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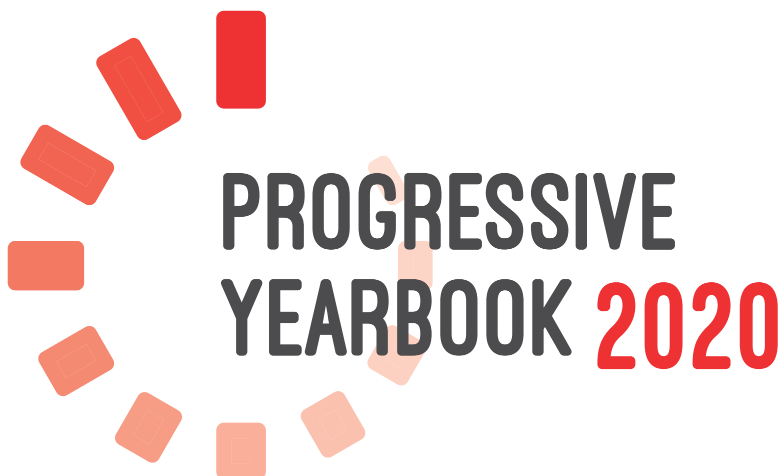
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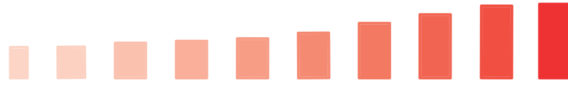

PROGRESS IN EUROPE

Five years with Juncker

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The Juncker Commission set very ambitious goals upon its election in 2014. This chapter will try to assess to what extent it was successful in achieving them, with a particular focus on its investment policy and budget matters. The assessment will also take into account that the Commission was faced with unexpected crises, namely Brexit and the so-called refugee and migration crisis, which put extra pressure on it. Moreover, the assessment will consider that the Commission was confronted with a lack of consensus at European level on many key policy areas, which made the achievement of an agreement even more difficult.

Take care of Europe and use all your strength
to fight against stupid and stubborn nationalism

With these words, Jean-Claude Juncker concluded his final speech to the European Parliament in October 2019. The European Commission over which he presided had taken office in 2014, following Europe's most serious financial crisis since the 1930s. Economic recovery was still uncertain. In 2014, the challenges for the European Union were to find an exit from that crisis and the development of new policy priorities, particularly in the fields of digitisation, energy, financial services, and security. At that point, the emergence of the refugee and migration crises in 2015 and of Brexit in 2016 could not have been foreseen. They added to the challenges of Juncker's Commission.

The remarks made by Juncker in his closing address were to claim that his Commission had been successful in reaching many of its targets, that it had taken care of Europe using new investment policies to secure growth and job creation, as well as development in sectors such as the digital, and that it had managed to defend Europe by deflecting or managing the dangers of nationalism that were posed by Brexit, by opposition to responsibility-sharing in the management of migration flows, and by the electoral gains of populists on the nationalist right.

This chapter will assess the degree to which Juncker succeeded in those endeavours, by comparison to the objectives that he and his Commission established for themselves when they were elected in 2014. Particular focus will be given to the investment policy pursued, the approach to budgetary matters, and the use of the European Union's budget as an instrument for investment.

In July and October of 2014, as Juncker and later the other members of the Commission sought their election before the European Parliament, policy commitments were made. Juncker's July and October speeches flattered the Parliament in terms of his promise that the Commission would be the most political Commission ever, and accountable to the Parliament to fulfil a political mandate as an 'economic government' for Europe. The policies would comprise:

- The creation of a digital single market to generate €250 billion of growth.
- Breaking down the silos between telecoms, copyright, and data protection, and the abolition of roaming charges.
- Commitment to energy union as part of an ambitious policy to combat climate change, and to that end establishing Europe as the global leader in renewable energy.
- Enhancing free movement of working people.
- New initiatives to combat tax evasion and fraud, alongside a Financial Transactions Tax to create more accountability in the financial markets.
- Consolidation and strengthening of the Euro Area.
- Concluding trading agreements such as TTIP and CETA with the US and Canada, as part of a dynamic growth strategy, but not at any price: against the threats of unregulated trade, social rights and personal data would have guarantees of protection and there would be no secret courts to arbitrate in the case of disputes – Juncker's First Vice-President, the progressive Frans Timmermans, would have a special role in monitoring external trade agreements to prevent eventualities that would present those dangers.
- The organisation of legal immigration into the EU to fill labour shortages.
- Protection of Europe's external frontiers.
- An investment programme worth €300 billion to be presented before the end of 2014.

In October 2019, Juncker appeared before the Parliament for the final time to account for his performance in office. His self-criticism was limited, and he blamed the Council for instances where objectives from before had not been met. But first, what were the successes?

The creation of the European Fund for Strategic Investments (EFSI), also known as the Juncker Plan, its enlargement to €500 billion, above the €300 billion first forecast, and its planned replacement by a new programme, InvestEU, worth €650 billion after 2020 was one undoubted success. The successful passage of the legislation to allow for a Digital Single Market was another. EFSI and InvestEU replace traditional expenditure with targeted loans guaranteed to an extent by public money. That public funds are not necessarily disbursed reassures those who are sceptical about the EU's budget. The funds that are loaned are larger than any increase in the budget could have been, enabling them to reach further. Together with the new regulations to allow for the expansion of the digital economy, EFSI and InvestEU allow for economic growth and investment in the single market, while incurring few costs for the public purse.

Juncker's final speech emphasised the successes, as he saw them, of growth, jobs and investment. This was in the context of eight years of economic growth, the creation of 14 million new jobs, unemployment at its lowest level for 19 years, and (he claimed) an extra 1 million jobs in place only because of EFSI. Concerning the euro, he claimed credit for his

Commission in rendering more flexible the stability and growth pact, leading to reductions in deficits and healthier economic conditions in Spain, Portugal, Italy, and Greece. On the subject of Greece's membership of the euro area, Juncker claimed success against some member states whose ministers had told him to "mind your own business, the Greek problem is the states' business, not yours", to which he reiterated that the European Commission safeguards Europe's general interest according to the treaties and it is in the general interest to avoid the disintegration of the euro area.

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Juncker also took credit for the adoption of an equal basis for social rights, including equal pay for equal work, and the redrafting of the posted workers' directive so as to limit social dumping as workers are posted temporarily to other member states by their employers.

On international trade, 15 agreements were made with third countries including Canada and Japan, bringing the total number of countries with which the EU has agreements to 60, which together with the EU itself represent 40% of the global economy. This is of particular importance given the current tendency of the United States to isolate itself in economic policy.

Turning to the unexpected refugee crisis, which commenced in 2015, he argued that Europe acted correctly in saving the lives of 760,000 people attempting to cross the Mediterranean, but that more could have been done if the Council had accepted the Commission's proposals on relocating refugees and in reforming the Dublin regulation.

On the failures side, he regretted no agreement with Switzerland, and the failure to achieve Banking Union or fiscal harmonisation due to the position of some member states.

Table 1: Distribution of commitments in the MFF 2014-2020

		%	
Heading 1a	Competitiveness	13.1	
Heading 1b	Cohesion	33.9	
Heading 2	Agriculture and Fish	28.9	
	other natural resources	9.9	
Heading 3	Security and Citizenship	1.6	
Heading 4	Global Europe	6.1	
Heading 5	Administration	6.4	
	Commitments		€960bn
	GNI %		1.00
	Payments		€908bn
	GNI %		0.95
Agreed in 2013 in the prices of 2011			

In response, Iratxe García Pérez, Chair of the Group of the Progressive Alliance of Socialists and Democrats in the newly-elected European Parliament, praised the success of EFSI, and the roles of the Commission in upholding the rule of law and the flexibility of the stability and growth pact. The conclusion of agreements with Iran was a major security achievement delivered by the High Representative and Vice-President Federica Mogherini. García Pérez expressed the view that Juncker's Commission had "half moved away" from austerity since only half of the reforming agenda of 2014 had been approved by the Council. Her view was that more needed to be done to unblock the immigration crisis, and to guarantee universal access to social protection, collective bargaining, decent levels of pay, the ending of child poverty, and the promotion of a decent work-life balance.

Juncker and the EU budget

So what was the record of Juncker's Commission concerning budgetary and investment matters? The Multiannual Financial Framework (MFF) of 2014-2020 entered into force before Juncker took office but would run for the entirety of his term. Compared to its predecessor, it was 5% smaller, but contained rules for added flexibility that would be useful during the refugee and migration crisis, and in providing guarantees for the loans in Juncker's investment programme. The MFF increased funds under 'competitiveness' or Heading 1a, which includes research and innovation (R&I), infrastructure, Erasmus+, and Galileo. The percentage share for 'cohesion' under Heading 1b underwent a small reduction, while a more significant reduction applied to agricultural direct grants under Heading 2. The changes were not radical.

In every budget round, there is a call for the EU to invest in new policies that provide added value. What does this mean? Firstly, that EU investment is cost-effective and that it is cheaper to run a single EU expenditure policy, even in a policy such as agriculture, than 27 or 28 different national expenditure polices. Secondly, that there are cross-border benefits, efficiently linking up areas of opportunity between the member states. Erasmus+, Horizon 2020, or the Connecting Europe Facility would be examples of this. Thirdly, the ability to afford expensive investment in the collective good that member states alone would not be able to afford. Examples would include Galileo and the nuclear fission ITER programme.

The Commission of Juncker's predecessor, José Barroso, concluded the agreement on the Multiannual Financial Framework of 2014-2020 in 2013, against familiar arguments to protect national financial self-interest, while attempting to introduce some added value. Member states wish to protect sovereignty, and emphasise financial balances – to maximise what they gain or to minimise what they contribute. Although the advantages of added value are recognised, there is pressure to reduce the budget, and to protect existing high levels of expenditure in cohesion and in agriculture. The MFF negotiations of 2006 and 2013 saw the budget reduced by around 5% on each occasion, along with modest reductions for agriculture and cohesion, and less new investment for added value than had been predicted. On taking office in 2014, Juncker and his Commission found themselves confronted by a Multiannual Financial Framework agreed one year earlier that was set to last until the end of 2020.

In 2017 a statutory review of the MFF took place, followed by an amendment proposed by the Commission and approved by the Council. In 2016, there was extensive use of reserves in the budget, particularly from agriculture, that were recycled into expenditure to deal with the refugee and migration crisis. The 2017 review increased flexibility between policy areas in the budget, allowing for more amounts to be rolled over from previous years and the enlargement of reserves.

In May 2018, the Commission made its proposals for the post-2020 MFF, the first to take account of Brexit and the loss of the British contribution. To retain expenditure at current levels, given the departure of the United Kingdom, commitments in the budget would need to be set at 1.16% of gross national income (GNI), according to a study by the European Parliament's Research Service. Instead, the Commission proposed a figure at 1.11% implying a repetition of a cut close to the 5% that had occurred in 2013 and in 2006. Part of the 'cost' of the British withdrawal was indeed met by the Commission in proposing some limited areas of new financing of the budget but not by an amount sufficient to retain the balance at 1.16% of GNI. These new finances included a levy on non-recycled plastic packaging, and call rates on

Table 2: the MFF proposal for 2021-2027 by policy cluster

Policy Cluster	€mn	% share	% change from last MFF	
1. Research & Innovation	91,028	8.2	+30	
2. Strategic Investment	44,375	4.0	+39	
3. Single Market	5,672	0.5	+11	
4. Space	14,404	1.3	+25	
5. Cohesion	242,209	21.8	-11	
6. EMU	22,281	2.0	New	
7. People and Values	123,466	11.1	+7	
8. Agriculture and Maritime	330,724	29.7	-15	
9. Environment and Climate	5,085	0.5	+46	
10. Migration	9,972	0.9	+39	
11. Border Management	18,824	1.7	+243	
12. Security	4,255	0.4	+23	
13. Defence	17,220	1.5	New	
14. Crisis Response	1,242	0.1	+122	
15. External Action	93,150	8.4	+9	
16. Pre-accession assistance	12,865	1.2	-1	
Administration	75,602	6.8	+7	
Commitments	1,134,583		+5	
GNI%				1.11
Payments	1,104,805			
GNI%				1.08

a Corporate Income Tax (CIT) and the Emissions Trading System. In the meantime, the Council has refused to make progress on the CIT, so it is likely that a larger financing gap will appear in the future budget. Although a Financial Transactions Tax, a Carbon Border Adjustment Tax to tackle CO_2 emissions, and a tax on the digital sector – nicknamed the google tax – had been on the agenda, they did not make it through to the Commission's proposal, in anticipation of the opposition from member states.

In terms of planned expenditure, more was proposed for areas of added value, what used to be Heading 1a, and less for cohesion and for agriculture, as had also occurred for the negotiations of 2006 and 2013. 'Strategic Investment' includes the Connecting Europe Facility and the Digital Europe Programme, whereas 'People and Values' includes the European Social Fund (investing in employability and previously part of cohesion) and Erasmus+. There were also some new priorities in response to the refugee and migration crises. See Table 2 below for a more detailed overview of the MFF proposal.

During Juncker's presidency it was not possible for the Council to reach agreement on the expenditure or revenue sides of the new budget period, but the proposal is the basis for an agreement in 2020.

The budget is tightly guarded by member states, and changes to it are very difficult to achieve even if Juncker appeared more ambitious in this regard than Barroso

As can be seen, the budget is tightly guarded by member states, and changes to it are very difficult to achieve even if Juncker appeared more ambitious in this regard than Barroso. The solution to overcome these blocks and generate real economic growth outside the budget may be Juncker's lasting legacy, the investment plan that was named after him.

EFSI: The Juncker Plan for investment

Without going into the details of its financing, Juncker had been clear in 2014 that he was determined to launch an investment programme. The challenge was how to generate that investment without using significant extra funds from public expenditure. Although readily supported by the European People's Party, this new initiative became a condition for Europe's Progressives to support Juncker's election by the European Parliament.

Two months after Juncker took office, the Commission tabled a draft regulation to establish the European Fund for Strategic Investments. The size, ingredients, and effects of the fund are such that they raise important questions for accountability, which also provides an opportunity. In the first three years of its duration it was to reach €315 billion rather than €300 billion, as proposed by Juncker just two months earlier. In 2017, a revision of the EFSI regulation increased the level of investment targeted from €315 billion to €500 billion.

Its success has depended on the insulation of its decision-making practices, which has enhanced its credibility as it implements a growth-oriented policy using a guarantee from public funds. Sceptical Council members readily accepted the initiative because it did not

lead to an increase in the size of the EU's budget, and because its investment capacity and managerial approach were coherent with single market objectives. In other words, the normal opponents of progressive economic policy could be persuaded to accept it.

EFSI was established in the first instance for three years until July 2018, with a target of generating loans into the economy of €315 billion. While €60.8 billion could be loaned by the European Investment Bank (EIB), a public bank backed entirely by capital paid in by the member states, the remainder would be lent by partner banks and investors across the member states, including publicly owned investment banks at the national level. EFSI has targets to lend at rates of interest below those of the market to higher-risk borrowers in the sectors of small and medium-sized enterprises (SMEs), larger to medium-sized enterprises, and for infrastructure. If successful, EFSI would have real effect at improving economic and employment prospects in sectors and areas where private capital is not always available.

Financial risk for the EU and the question of accountability arise from the guarantee that the EU budget provides, but this also gave an opportunity to the European Parliament and to the objectives of Progressives. For the first period, until 2018, the guarantees of the EU and the EIB amounted to €21 billion. In the event of borrowers defaulting on their loans from EFSI, the first €21 billion is met by the EU and the EIB, before other banks or investors are exposed. This promotes the confidence of other lenders in participating in the system and allows for interest rates to be lower.

Of the €21 billion guarantee, €5 billion was taken from the EU's Connecting Europe Facility (CEF) and from the EU's R&I programme, Horizon2020. This was justified by the investment potential of EFSI within these two policy sectors, but reduced direct Commission involvement in those fields.

The EIB manages EFSI, while an insulated Investment Committee takes the investment decisions. These bodies, staffed by experts, are vulnerable to the democratic deficit. However, if the EIB and the Investment Committee are to manage a publicly underwritten fund like EFSI, their insulation makes them more credible in making investment decisions that deliver growth, while avoiding the risk of defaults. That the decisions really deliver these goals is a result of the tight wording in the Investment Committee's mandate approved by Progressives in the European Parliament. They were able to use their consent on the rules for EFSI, the insulation of the Investment Committee, and the deposit of the EU's guarantees, in order to extract the conditions for the types of investment to be made. Legally, these must include investment for increased employment, energy transition, renewable energy, and the meeting of climate change targets.

In 2018, EFSI was expanded and extended until the end of 2020 for new projects. It can increase from €315 billion to €500 billion in terms of total credit. By December 2019 the total credit generated for investment in the European economy was €459 billion. The value of the EU's guarantee had increased from €21 billion to €33.5 billion during this period.

An important accountability concern for EFSI raised by the European Court of Auditors in 2019 is that recipients of EFSI financing in the member states receive the finance via local banks, which are also part-contributors to the lending. Those recipients, often SMEs that may be able to create jobs, have been unaware that the cheaper finance available to them, as a higher risk sector, originates as part of an EU plan.

As Table 3 shows, EFSI has triggered large amounts of investment across the EU. As a proportion of a member state's GDP, we see the most significant levels of investment in Greece, with cohesion and more recent member states benefitting significantly. Notable exceptions are Romania, Slovakia, Croatia, and Czechia that benefit less, and the relatively prosperous Spain, Italy, Finland, and France that benefit more as a proportion to their GDP. The EFSI's Investment Committee is not permitted to weigh such considerations, but is bound to consider economic growth.

Table 3: Extent of EFSI investment in EU member states, 2015-2019, ranked according to investment in proportion to GDP

	Ranking: investment /GDP	EU+EIB finance €mn	Total triggered €mn
Greece	1	2,736	12,104
Estonia	2	158	1,335
Portugal	3	2,731	9,984
Bulgaria	4	546	2,684
Poland	5	3,944	20,970
Spain	6	10,447	49,751
Lithuania	7	386	1,809
Italy	8	11,231	69,514
Latvia	9	270	1,133
Finland	10	2,138	8,686
France	11	15,142	77,747
Hungary	12	788	4,369
Slovenia	13	176	1,286
Sweden	14	3,396	13,239
Czechia	15	874	4,662
Ireland	16	1,507	7,247
Croatia	17	284	1,134
Denmark	18	940	6,057
Belgium	19	1,608	8,401
Malta	20	44	211
Netherlands	21	3278	13,217
Slovakia	22	555	1,448
Austria	23	1,774	5,996
Romania	24	722	2,989
Germany	25	7,894	34,224
Luxembourg	26	119	549
United Kingdom	27	2,245	19,530
Cyprus	28	46	91

Source: https://ec.europa.eu/commission/strategy/priorities-2019-2024/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en.

One month after proposing the post-2020 Multiannual Financial Framework, the Commission in June 2018 proposed a regulation to govern EFSI's successor, InvestEU. This awaits approval during 2020 along with the new MFF. The new fund would be extended from €500 billion to €650 billion, backed by an EU guarantee of €38 billion. The objectives and types of lending would remain largely the same. However, the management by the European Investment Bank is removed, although the EIB would appoint board members to the advisory board of InvestEU. Other participating banks would also be represented. More worryingly, the member states would also appoint members to the advisory board, although they had been absent from the management of EFSI. The new Investment Committee will be composed of experts like the old one, but appointed by the European Commission, rather than from a more insulated process under EFSI. It seems that InvestEU will be more political than EFSI and under greater influence from member states and the Commission, although its policy mission will be unchanged.

Concluding remarks

Jean-Claude Juncker's European Commission took office at a time of economic and political uncertainty. His policy agenda was not fulfilled but it had been extremely ambitious. In 2015 and 2016, respectively, the new crises concerning refugees and Brexit provided further challenges. Many policy areas were not successfully brought forward due to a lack of consensus at the European level, with particular failures around the proposed banking union, tax harmonisation, the fight against predatory tax behaviour and avoidance, and revision of the Dublin rules on asylum and immigration. Meanwhile the establishment of EFSI was a success that found ways around more familiar objections to public spending. Indeed, a lack of consensus among the member states on budgetary matters due to the protection of national financial self-interest made investment in job creation and measures to combat climate change very difficult. EFSI and its successor InvestEU provide a method to achieve that investment if Progressives in the European Parliament and the Commission are able to set agendas, and to impose a progressive mandate on the experts taking the investment decisions.

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