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IS GROWTH ABOUT TO RETURN TO THE EUROPEAN UNION?

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Europe's economic problems continue to be the focus of the attention and concern of EU citizens and politicians. This is logical: the European Union is attempting to recover from what has been, beyond any doubt, the worst economic crisis since the Second World War (it is actually two consecutive recessions, 2008-2009 and 2011-2013). So it is no surprise that Jean-Claude Juncker begins his tenure at the European Commission with an agenda that devotes six of its ten areas of action to combating the crisis and improving the economic prospects of the EU in one way or another.

Of these lines of action, the one that links most specifically to the challenge of overcoming the crisis is the first, which Juncker calls, "A New Boost for Jobs, Growth and Investment". The hard core of this work is the urgent adoption ("by Christmas", as Juncker vividly declared before the European Parliament in July, when his candidacy for president of the Commission was ratified) of an investment package which, through various mechanisms, should bring €300 billion of new investment (public and private) to the EU. It responds to a different logic to the five areas of economic intervention that follow: full development of the digital single market; promotion of a new European energy union; deepening the single market, with reorientation towards industry; continuing the reform of the Economic and Monetary Union; and, finally, negotiating a new free trade agreement with the United States. While the investment programme seeks to support economic reactivation via a Keynesian mechanism of stimulating short-term demand, the bulk of the action in other areas is designed to act upon the framework within which economic actors operate, in order to improve efficiency. Or, in macroeconomic jargon, they focus, fundamentally, on questions of supply, the results of which will be revealed in the long term.

So that is what Juncker's agenda for jobs and growth sets out to do. But will it be effective? In order to attempt to answer this, let's imagine that we are in 2019, when the Juncker Commission's mandate ends. That way we can see the economic results that are expected. Taking various long-term prediction scenarios to draw out a future path that analysts might reasonably accept, between 2015 and 2019 the EU's GDP will grow by an annual average of 1.9%. Although the figure may seem mediocre, it is worth remembering that in the years of the crisis (2008-2013) GDP fell by an annual average of 0.1%. With regard to employment—the other great goal of the Juncker Commission—between 2014 and 2019 more than five million jobs will have been created in the EU and the unemployment rate will be similar to 2009. Ultimately, if these predictions are fulfilled (and they are neither overly optimistic nor pessimistic), by the time Juncker reaches the end of his mandate, the EU will have managed to practically close the breach that opened up between production and employment in the abyss of the successive recessions that began in 2008. Not at bad legacy at all.

Nevertheless, the valuation loses a little of its lustre when we reflect on how far this recovery in activity and employment will be down to the Juncker agenda. As I mentioned before, the intended impact of most of Juncker's proposals is long-term (changes on the supply side of the economy) while the task of stimulating demand in the short term falls to the investment plan. In the absence of further detail, the Juncker agenda makes explicit only that the measures that will make up the investment package "should allow us to mobilise up to € 300 billion in additional public and private investment in the real economy over the next three years". Let's put that figure in perspective: the amount invested will be around 0.7% of the EU's GDP. If we accept, for the moment, that the plan is completely successful and manages to effectively add this value, what reasonable figure of additional growth can we then expect? Taking the empirical evidence available as a reference, a prudent estimate, skewed neither upwards nor downwards, is that additional growth induced by the programme might be 0.4% That would put average growth for the 2015-2019 period at 2.1% annually, a figure that looks good because we are emerging from an extreme situation, but which is far below that recorded between 2000 and 2006 (a less exceptional period) when GDP grew annually by 2.4%. But if the plan is less than a total success and mobilises less investment—a premise that cannot be discounted—or the conditions of the European economy are worse than expected, say, because the period of low inflation is prolonged or we are for too long on the verge of a hypothetical third consecutive recession (unlikely, in my opinion), that is to say, because the European economy resembles Japan's in the nineties, the additional growth could be practically nil.

It is unlikely that the rest of Juncker's proposals will have an appreciable effect on short-term growth. For example, although his Policy Guidelines claim that the second line of action—delivering the digital single market—will generate GDP growth of more than €250 billion, it is more than debatable that its effects will fully materialise in 2015-19. A similar diagnosis can be made about the other lines of action, the impact of which will been seen, in any case, after the mandate of Juncker's Commission ends.

In the end, in terms of growth in the long and short term, the Juncker agenda has an expected effect of between moderate and practically none. This should surprise nobody, because the powers that the Commission holds in terms of stimulating demand are limited—most of those cards are in the hands of the member states and the European Central Bank. Where the Juncker agenda is most promising is in the area of supply and structural changes, two areas in which the EU executive has the best chance of acting to some effect and, above all, of guiding national economic policies. In consequence, placing the emphasis on the investment package, and, in general, the first line of action over the five that follow (the structural reforms) is probably an error, as it excessively commits the Commission agenda to a one-off initiative, which is highly visible and the effects of which are uncertain.