An employment-oriented investment strategy for Europe

STUDIES ON GROWTH WITH EQUITY

International Labour Organization
KEY POLICY OPTIONS AND CONSIDERATIONS

Against a backdrop of sluggish economic conditions and continued weak job creation, the Investment Plan proposed by the European Commission President Jean-Claude Juncker would provide a rapid economic stimulus that would foster Europe’s competitiveness at the same time as boosting much-needed employment creation. The main finding of this ILO report is that, if careful consideration is given to the design of the programme and its allocation, over 2.1 million net new jobs would be created by mid-2018.

A call for action

• *Stimulating investment is a step in the right direction to boost job creation.* Since the height of the crisis, investment in the EU-28 remains well below pre-crisis levels and is too low to make a significant dent on unemployment and under-employment. The unemployment rate, at 9.7 per cent in the third quarter of 2014, is close to 3 percentage points above the level reached in the same quarter of 2007. Moreover, half of those unemployed have been without a job for more than a year. By comparison, in the United States of America, for example, investment has recovered by more than 2 percentage points and the unemployment rate has fallen by more than 3 percentage points since 2009.

• *The Investment Plan comes at a time when the growth outlook is deteriorating.* Between the Spring and Autumn 2014 European Commission projections, GDP growth was revised downwards for 2015 in 22 of the 28 economies. In the EU-28 this translates into a downward revision of 0.5 percentage points from 2.0 to 1.5 per cent, with the outlook weakening significantly in some of the larger EU-28 economies, such as France and Germany. Higher investment is essential to reverse that trend, improve competitiveness and create more and better jobs.
Employment impact of the Investment Plan will rely on key design features and distribution criteria

- **Employment impacts will be significantly enhanced through private sector investment.** 1.8 million direct and indirect jobs (0.8 per cent of total employment) can be created if the Investment Plan succeeds as planned in leveraging private sector investment that would raise the total funds invested in the economy to €315 billion. This means that public investment projects should be selected on the basis of the extent to which they do not “crowd out” private investments. Ensuring that small enterprises benefit (directly from the projects and indirectly through credit guarantee schemes and improved access to credit in general) is also crucial to its success.

- **Allocating funds with consideration to unemployment levels yields the best and most equitable job gains.** Under a scenario where part of the funds are distributed by Member States’ level of unemployment, total employment gains would approach 2.0 million. Moreover, not only would overall employment be higher by nearly 10 per cent (compared to the 1.8 million scenario), but those countries in greatest need would observe the highest increases in employment and thus narrow the labour market disparity across the European Union.

- **Complementary support to skill development will lead to additional net positive gains.** Within the current financing structure, if less than 5 per cent were reallocated towards measures to support improvement in skills, the job gains from such a redistribution would be in the order of 4.3 per cent or 0.1 million (compared to an allocation solely focused on investment), bringing the total gain of an employment-friendly approach to 2.1 million jobs.

Need to lay the groundwork for a balanced and sustained strategy

- Any measures need to form the basis of a medium-term employment strategy that aims at quality job creation and avoids a race to the bottom in terms of wages and working conditions. In that respect, consideration should be given to monitoring the employment impacts of the Investment Plan in the broader context of an employment-centred policy agenda. Finally, balanced, sustainable and credible solutions are best achieved in a tripartite setting, and coordination and dialogue both within countries and at the EU level would leverage a stronger economic impact.