An Employment-oriented Investment Strategy for Europe

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Austerity, aggregate demand and investment

• Austerity was doomed to fail in economies highly dependent on internal demand

• Reduction in demand only dampened further investment activity

• But, productive investment was already lacking

• Current Investment Plan can help – only part of the solution
The recovery remains weak...

GDP growth forecasts in the EU-28 and other major economies, 2015

Source: ILO Research Department based on EU Commission Economic Forecasts, different editions
... unemployment remains near double digits...

Unemployment rate in EU-28 vs US, Q1 2007 to Q4 2014
(percentages)

Source: ILO Research Department based on Eurostat.
...challenge of long-term unemployment

**Long-term unemployment rates in the EU-28 and Greece**

Notes: Long-term unemployment rate refers to the number of unemployed persons out of work for 12 months or more as a share of the total number of unemployed.
Source: ILO Research Department based on Eurostat.
...but support is waning.

Source: ILO Research Department based on EU DG EMPL.
Investment shortfall is a key factor underpinning poor job creation...

Source: ILO estimates based on IMF and Eurostat
...which pre-dates the onset of the crisis...

Growth of investment in manufacturing and ICT between 2000 and 2007 (percentage)

Source: ILO Research Department based on Eurostat and OECD
... and so the Plan is a welcome initiative...

- Aims to boost much-needed job creation; putting jobs on par with growth and investment objectives

- Provides a means to emphasis “productive” investment, rather than short-term financial gains

But...

- May have unintended distributional consequences at the macro and micro level
... but must avoid worsening existing disparities

Note: "Low unemployment" refers to EU countries whose unemployment rates over the period 2007-2013 were below the EU-28 average. Conversely, "High unemployment" refers to EU countries with above the average unemployment rates in the period 2007-2013. "Non-EU countries" refers to EIB partner countries outside the European Union.

Source: ILO Research Department based on European Investment Bank.
A job-friendly approach is key

Employment impact of the Investment Plan, under different design features (million net new jobs above baseline, 2018 versus 2014)

- Lower bound (unleveraged €63 billion)
- GDP allocation
- Job-friendly distribution
- Job-friendly distribution + ALMP

Source: ILO Research Department
How does the EU Plan compare with those in other countries?

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<thead>
<tr>
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<th>EU Investment Plan</th>
<th>US Recovery and Reinvestment Act</th>
<th>Japan Stimulus Plan</th>
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<tbody>
<tr>
<td>Size as a % of GDP</td>
<td>2.4%</td>
<td>7.3%</td>
<td>3.8%</td>
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<tr>
<td>Target job creation</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Target vulnerable groups</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Monitoring during</td>
<td>?</td>
<td>✓</td>
<td>✓</td>
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<td>implementation</td>
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<td>Impact evaluation</td>
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<td>✓</td>
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<td>planned</td>
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Moving forward

• Leverage the Plan to stimulate productive investment where it is most needed (wage growth can follow)

• Active labour market policies and vulnerable groups: cost of inaction is high

• Engage the social partners in the design of training – case of Canada

• Impact evaluation of employment effects is crucial – central role of EIB
EU co-ordination

Sure glad the hole isn’t at our end.
THANK YOU!

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