EXPERT CONTRIBUTION

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Europe needs another Marshall Plan to save crisis-ravaged euro

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Just months since taking power in January, Greekôs Syriza coalition faces obstacles at every turn, from an intransigent European Central Bank to an unyielding European Council.

The ECB in particular has rejected Greek proposals for short-term bridge financing to allow for more time to negotiate medium- to longer-term structural reforms.

So once again, weôre on the cusp of crisis as Greece and its creditors **struggle** to find a deal before an upcoming June deadline, with the countryôs exit from the eurozone a genuine possibility.

Little help appears forthcoming across the Atlantic as well.

During a trip to Washington earlier this month by Greek Finance Minister Yanis Varoufakis, neither the International Monetary Fund or the US government **offered** much help, hope or new ideas.

But as it happens, Europe has a solution in its hands: the **European Investment Bank**(EIB), the worldôs biggest lender backed by more than one country. The EIB should use its financial firepower to make much-needed investments in infrastructure such as roads and schools to not only jumpstart the sinking Greece economy but also those of the many other recession-plagued countries across the Continent. That could, in turn, prompt a flood of private investment, revitalizing Europe and end this pattern of stumbling from crisis to crisis.

Time may be running out, not just for Greece and Europe but also for the world economy.

Ultimately, whether Greece defaults may not be as terrible as letting a good crisis go to waste. What we do not want is to miss an opportunity to fix a problem at the heart of the euro.

Is the euroôs foundation strong enough to endure? Euro houses via www.shutterstock.com

Flawed from the beginning

Pundits in Europe and America have long pointed out that euro-based monetary unification without federalism ï as opposed to forming a United States of Europe ï was flawed ever since the idea was first broached in the 1960s.

The **Maastricht Treaty** that created the European Union in 1992 established relatively austere fiscal targets but no central fiscal authority, giving rise to **structural imbalances** that are at the core of the problem today. This worsened the prospect of financial and fiscal crises, particularly once the Economic and Monetary Union gave birth to the euro seven years later.

While these observations are certainly true, there is no way to go back and fix ñbadò history and certainly no quick way to build federalism during a severe crisis.

Without federalism, itôs difficult to pool resources (excess savings) in certain parts of Europe and invest them in others where they are most needed, while sharing burdens across member states. Doing this usually requires some kind of fiscal federalism combining common taxation and borrowing policies as well as money transfers across regions.

Growth through investment

Yet there are ways to ameliorate some of the problems of the depressed EU economy even under its current flawed institutional design.

Often forgotten as we focus on the back and forth between Germany and Greece is the existence of the EIB, the European Unionôs bank.

The EIB, whose shareholders are the 28 EU member states, was set up to implement the regionôs policy objectives. Today it mainly makes comparatively small loans, primarily to the private sector.

But it could expand operations and begin lending to finance public investment. With imaginative and constructive financing, the EIB could even now undertake a mobilization of idle savings in Europe and elsewhere to spur productivity, growth and employment through public and private investment. It could also boost aggregate demand, a fancy way to say grow the overall economy.

It could also work hand in hand with the ECBôs quantitative easing program, which involves buying certain types of bonds to drive down interest rates. The EIB could issue special eurobonds, backed by every member state, and the ECB could purchase some of them. That would inject new money into the system, while the central bankôs guarantee would encourage private savers to buy more of these eurobonds.

The EIB actually is in the process of rolling out a plan that heads in this direction.

The **European Fund for Strategic Investments**, while still not fully ratified, is expected to support about 315 billion euros (US$343 billion) of investment, mostly by private sources.

Itõs a start and will be helpful. Greece itself does not need that much. Investment projects of even several billion euros at this point will be a shot in the arm. Future commitments will create credibility and stability drawing in private investments later.

But what the EIB really needs is a boost in its capitalization to 750 billion euros or even a trillion, up from 243 billion euros at present. That would allow it to invest many trillions more through its own borrowing.

This could provide the financial basis for a Europe-wide investment and employment creation program, starting with the worst-hit areas such as Greece and Spain. Here Germany, as the economic engine of Europe, must play a leading role.

The multiplier effect

The next step would be to choose the projects with the largest multiplier effects and the greatest potential for creating jobs in depressed areas, for example Greece, Spain, Italy and Portugal. To do this, public sector investment will be crucial.

In **research** Iõve conducted on my own and in collaboration with other scholars in public finance and related fields, weõve **discovered** an encouraging theoretical finding thatõs been confirmed by empirical evidence. Namely, in depressed economies, private investors typically wait for public sector investment ï especially in infrastructure ï before following suit.

In most cases, private and public investments are complementary, as is the eventual multiplying effects on employment, spending and growth.

For example, for both multilateral and Japanese bilateral aid, our **research** revealed that public investments in roads and other physical infrastructure had ripple effects that doubled or even tripled the initial investment. Investment in schools also has a similar effect with a corresponding increase in employment.

A modern-era Marshall Plan could be just what Europe needs.
Marshall parade via www.shutterstock.com

A new Marshall Plan

Europe could begin with an initial experiment that aims to match public investment with money from the private sector. For the EIB, I would expect that each euro spent would boost overall output two- to three-fold.

If it proved successful, we could follow it with a much more ambitious plan and create a 21st-century version of the European Recovery Program ï better known as the **Marshall Plan**.

That $47 billion, four-year program helped revitalize a war-ravaged Europe in 1947 ï just as a crisis-riddled Europe needs such aid now.

It is time for Europe to show economic and financial imagination and boldness in order not only to avert the deeper crises that are sure to follow if the present course is maintained but also to build a more prosperous and democratic future.

There are many other constructive steps that can follow the proposed EIB growth-through-investment idea.

Progressive economists and political economists everywhere need to be involved in these crucial debates. Not just the future of Europe, but in a real sense the future of global prosperity and the march towards democracy may depend on what is done in Europe in the next few months.