

Effective stimulus spending requires creativity

di Neelie Kroes

Through the single market, the European economy is heavily interdependent; it is an economic family. In 2009 survival is the name of the game. But businesses also need to get in shape for the recovery. The single market is not a luxury for the good times; it is a prime cause of the good times. Choosing to light the fire of protectionism would be the economic equivalent of arson.

Jobs and businesses are already disappearing. Governments have to address short-term problems, but without undermining long-term recovery. In the long term it is businesses that create jobs, not governments.

The car industry, for example, faces at least four problems: dried-up credit markets; a collapse in demand; long-term structural overcapacity; and pressure to be more environmentally responsible. Attempts to support the car industry will fail if they focus on one problem alone, neglect the long term or pretend that a “home” market can be isolated and protected. In 2009 there is no “home” market for car manufacturers – the level of interdependence in supply chains and the export-orientated nature of their sales render the concept meaningless. If we have a single market for sales, we must have one for production.

If production of cars or parts offers better value for money in one European country than another, then companies will operate there of their own accord. These are decisions for management, not government. Imposing additional geographic operating obligations will only drive up costs or drive down quality, pushing companies further away from the consumer.

Fifty-one years ago, the governments of France, Germany, Italy and the Benelux agreed on a plan that would create a single market. Now 500m people strong and the world’s largest trading entity, this market has remained the core of the European project. It is the goose that laid the golden egg, giving Europe greater freedom to tackle thornier issues about common identity, the collapse of communism and the costs of its demographic destiny.

This does not mean we should hope for the best and do nothing: there are people who need help today. The European Commission has led the way in advocating a European economic stimulus of 1.5 per cent of gross domestic product, in addition to the normal automatic stabilisers. But we have to be creative in our stimulus spending and remember that markets work best when they are competitive.

Faced with the need to create jobs quickly, keep stimulus money circulating and avoid undermining other policy goals, governments have plenty of options, not least the obvious economic potential of “green growth”. This potential is recognised, for example, by the Commission’s openness to well targeted environmental state aid to companies and by the European Investment Bank’s green transport loans.

Most “green” investments are inherently labour-intensive and localised, creating more jobs than either a boost to household incomes or a traditional investment would. The Center for American Progress estimates that a \$100bn (€78bn) green investment programme could generate up to 2m

jobs in the US compared with 1.7m for the same amount spent on household consumption and just 500,000 if spent on the domestic oil industry.

So why not spread schemes to “retrofit” filters for diesel cars and trucks to all European countries? Why not use scrapping schemes such as those of Germany and France to boost demand while also removing the worst polluting cars from our roads? Why not improve the energy efficiency of homes and offices across Europe? Such programmes are encouraged under new European environmental aid guidelines: retrofitting creates jobs in manufacturing and installation, frees consumer spending power, delivers environmental protection and reduces the risk of energy shortages in winter.

Where factories face temporary downturns in demand, why not increase opportunities for training or retraining? That would be better than paying people not to work.

I am sure there are many more – and better – ideas than these. But what these ideas have in common is that they all invest money, rather than merely spend it. They act in the short term to create jobs and help people and businesses today, while strengthening our prospects in the long term. Instead of falling foul of EU competition rules, they work within them.

It is time to lift our sights higher than sectoral bail-outs and match our words with actions.

The writer is EU competition commissioner