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Sensible to foster infrastructure spending

From Prof Stephany Griffith-Jones.

Sir, Gideon Rachman (“France votes to throw down the gauntlet to Europe”, April 24) and other FT articles rightly stress the urgent need for growth to be restored to the European economy. It is surprising that Mr Rachman then goes on to criticise François Hollande’s eminently sensible proposal to promote Europe-wide spending on infrastructure. Such spending would contribute to a very much needed increase in aggregate demand in the short term, in an atmosphere where the private sector is inhibited from investing by lack of confidence in growth. This will surely help promote growth in the short term. In the medium term, investment in infrastructure will facilitate a supply response for increased growth.

Mr Hollande has also suggested an important avenue of how such Europe-wide investment in infrastructure could be financed. This is via an expansion of the European Investment Bank, an institution that plays an important role in financing key European infrastructure. A relatively small contribution by European Union governments to increase paid-in capital of the EIB could leverage a fairly big increase in EIB lending for investment in Europe-wide infrastructure, which would be funded by financial markets.

We need constructive ideas to restore European growth. Doom and gloom is easy, but positive alternatives are the only way forward to restore EU growth, and thus help overcome the sovereign debt crisis.

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