

**Investing for the long term,
a short-term emergency**
(some food for thought)

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This report is the result of the work of a Commission chaired by Bernard Attali, Senior Counsellor at the “Cour des Comptes” France (Court of Auditors).

The work was coordinated by Laurent Zylberberg, Director of Institutional, International and European Relations at the Caisse des Dépôts.

Laurent Trevisani, Patrick Artus and Audrey Tcherkoff coordinated the working groups assigned to examine needs, resources and actors/tools respectively. Gen Oba, Fatima Hadj and François Calonne were the groups’ rapporteurs.

Other members of the Commission were Mireille Aubry, Sophie Barbier, Pierre Bollon, Joachim Bitterlich, Virginie Chapron du Jeu, Michel Derdevet, Arnaud De Bresson, Edouard De Lencquesaing, Laure Delahousse, Philippe Dutertre, Jean-Paul Fitoussi, Stéphane Gallon, Christophe Gouardo, Pascal Lagarde, Sylvie Malécot, Olivier Mareuse, Christophe Nijdam, Joel Prohin, Benjamin Quatre, Hubert Rodarie, Yann Tampereau and France Vassaux.

All the contributors’ involvement in producing this report was on an individual basis.

I. Introduction

The 2008-2009 financial crisis led to a diminution in long-term investment in Europe; the current crisis has made the effects of this failure to invest for the future all too apparent. Large parts of our transport infrastructure are ageing; our hospitals have been shown to be lacking and sometimes outdated; research starved of resources; higher education impoverished; huge inequality in people's ability to access digital networks and services; overdependent production channels, etc.

The current crisis has revealed the fragility of a growth model based on a gradual depletion of natural resources, excessive specialisation and guilty carelessness as far as social and human development is concerned.

By prioritising short-term profit over sustainable growth - the only guarantor of this profit, in other terms by sacrificing long-term goals for short-term needs, we are relinquishing the economic resilience afforded by countercyclical investment. Although dramatic, the situation is not irremediable, as shown by the vast stimulus packages being rolled out around the world and at the heart of which is an increase in investment. Long-term investment can again be a driver for growth, but this requires, above all, a proper diagnosis of the current situation and the right questions being asked.

Asserting the importance of the long term seems obvious. However, many existing measures, whether regulatory, legislative or otherwise, prioritise the short term in the name of prudence. Economic players, being risk-averse, focus on the short term, which is more familiar and ultimately more reassuring than the long term, which is fraught with uncertainty and threats. How can we invest for the long term in an increasingly uncertain environment, where signals are scrambled, chaotic and difficult to read? What can the logic of long-term investments be when recent history has turned the most rational economic calculations on their heads? How can we take into account all the effects of investment decisions when these effects are increasingly numerous and complex? Is it not the case that the high cost of investments for sustainable growth, which should have been made a long time ago, grows as those investments become increasingly necessary? Because the crisis requires an urgent response, to deal with the most critical situations, is it not becoming increasingly difficult to take into account the long term, whose effects are less immediate?

During our discussions, we came up against the European paradox: a group of highly interconnected economies where each economy of that group has strong individual features derived from history. We often focused on the situation as regards France, knowing that this would shed light on just a part of the problem. Our work is therefore intended to be broadened to encompass Europe as a whole for a study of greater depth.

By bringing together people with different backgrounds and perspectives, the aim of this report is as much to answer all these questions as to propose ways of how to move forward. **These proposals - at the end of the report - are grouped according to the following three categories:**

- (1) Normative measures aimed at financial and non-financial players
- (2) Political incentives suggested by public players
- (3) Institutional innovations to bring change over time.

II. What do we mean by “long term”?

In 2018, a report entitled “*Betting on the long-term*” (¹) showed the difficulty in defining long-term investment other than negatively: “*long-term investment is neither an asset class, nor a type of liability, nor a type of operator, nor a management style but a bit of all these elements*”

This gives rise to long-term investment being defined as “*the financial investment strategy deployed by any operator holding stable resources which at the same time allows for and requires asset allocation able to generate an economic return over time*”.

But the crisis we have just faced leads us to rethink this definition from the point of view of the economic players. Whereas from today’s standpoint the future appears highly uncertain and the decision-making horizon seems to be ever shortening, why should and how can economic players bet on the long term?

Because any definition can be longly discussed, we have taken long-term investments to mean investments or expenses that produce positive externalities that benefit the economy as a whole or that significantly reduce the negative externalities produced by others. Similar to changes in administrative law, long-term investments can be defined based on a bundle of characteristics. In some sectors, operating expenditure (opex) may be sometimes as essential as capital expenditure (capex), if positive externalities are to be produced in the long term. In areas such as healthcare or education, capital investment without increases in operating expenses would make little sense.

There was a time when government planned for the long term, setting the stages and steering the investments, both their own and those of other economic players. It also set the strategic objectives. Nothing of any importance came to replace *rue de Martignac*², where, in the aftermath of the 2nd World War, when only the state could take responsibility for the reconstruction effort, players of all areas of the economy and society worked together to chart the direction of travel for a common future. These days are gone. In the 1980s, government was considered to be less effective overall than the market in performing this function of vision and direction. Government no longer has the necessary room for maneuver to invest. Then, we are faced, especially in western countries, with the “time paradox” in a constantly accelerating world³, the horizon has shortened, at least that part of the horizon for which forecasts can be made. This remains true even though climate change has caused a return to making very long-term projections, including with highly typified demographic scenarios. In other words, we now need long-term investment in an environment that offers little certainty and when players’ horizons are often no longer than ten or so years.

From this point of view, long-term investment depends on rational economic players doing away with the “Tragedy of the Horizon⁴”, by taking into account the future effects of their

¹ Long-term Investment Task Force of Paris, chaired by G. de La Martinière (2018), *Betting on the long-term. Rebuilding investment for the Europe of tomorrow*.

² Headquarters of the General Planning Commissioner (Commissariat général du plan)

³ To borrow the term from the philosopher Harmut Rosa, *Social Acceleration. A new theory of modernity* (2015), Columbia University Press. See also Daniel Halévy’s precursor book, *Essai sur l’accélération de l’histoire*, Paris, Editions Self, 1948.

⁴ <https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability>, Mark Carney, Governor of the Bank of England.

decisions⁵. Investing for the long term is first and foremost taking an immediate risk, hoping to generate long-term value for oneself and others. Long-term investment is therefore based on the three dimensions: **risk-taking, patient calculation and value creation**.

A. Risk-taking: a jump in the dark

Long-term investment requires betting on the future by taking risks over time with consideration of all externalities. Such risk-taking is easier for players with stable sources of funding because they are able to spread the risks over time and are prepared to wait before taking any profit. However, given the stakes, long-term investment is too serious a matter to be left in the sole hands of large institutional players. Their role is to act as catalysts, but the choice of the long term must be shared by as many players as possible because the needs are immense, both for **a change in the pattern of growth and the financing for transitions**.

Long-term investment shapes the structure of the economy. Taking transport infrastructure as an example, its long-term impact both on lifestyle and production methods is easy to see. Because long-term investment is strategic for the future, there is a real risk, when building infrastructure that meets the needs relevant at the time of design, that it is neither adapted to, nor may it be transformed for, the future. Therefore a long-term investment is not only defined by its maturity, but also its projection into the future, the likelihood of its having a positive systemic influence and the extent to which it can be adapted in light of changes in its environment. For investors, it is ultimately to **accept taking risks today, to reduce risk tomorrow**.

B. Patient calculation: return on investment, but not only

A long-term commitment also means building an informed strategy implemented with the required level of quality. The decision-making criteria underlying long-term investments are based on approaches that are not limited to maximising the expected financial profit when making decisions. Over a long period, economic profitability calculations are, by definition, more hazardous. However, we must not believe that economic and return calculations should not be made for long-term investment decisions. It has thus been demonstrated⁶ that the issue of return on investment has always been part of decision-makers' thinking, even concerning public-service investment where there is no apparent financial return. Although the analysis frameworks are not the same, economic imperatives are not however overlooked.

Long-term investment may not be the promised land, but it is essential for preparing the future. More demanding, it must **incorporate, in addition to today's constraints, the constraints of tomorrow** - not only constraints that are certain but also those that are likely or simply possible. The climate crisis we are experiencing has a multitude of economic, social and, to some extent, moral consequences. This further complicates projections and long-term constraints so as to commit to a growth that is less carbon-intensive and more respectful of the planet, by taking into account the environment in search of better social and human balances.

⁵ Mark Carney stated: *"That means beyond: the business cycle; the political cycle; and the horizon of technocratic authorities, like central banks, which are bound by their mandates. The horizon for monetary policy extends out to 2-3 years. For financial stability it is a bit longer, but typically only to the outer boundaries of the credit cycle about a decade."*

⁶ See in particular Pascale Defline (2011), *Notion of financial return and logic of choice in public services: the case of investment choices in four municipal public services*. Gestion et management, Conservatoire national des arts et métiers - CNAM.

See also the article *"Public service investment decisions are also based on financial criteria"*, <https://www.lagazettedescommunes.com/490439/investir-dans-un-service-public-se-decide-aussi-en-fonction-de-criteres-financiers/>

C. Value creation: value for oneself, but also for others

The drivers for individual and collective action are many and cannot be reduced to the simple logic of financial return alone⁷. Thus, the investment driver is, for the most part, based, at least, on the creation of direct value, whether it is the creation of jobs or company productivity; and on indirect value, such as economic relocation or territorial attractiveness.

Long-term investments can be divided into two categories. Those that produce value from a given date; they fit the standard “J curve” model: they are therefore characterised by creating value only after a period of time has elapsed. But there are other long-term, sustainable investments that produce value throughout their life without necessarily any time lag.

Because the value of an investment is not measured solely in economic and financial terms, other elements need to be considered. For example, it seems essential to place people at the heart of health and education and, more generally, everything related to the “economy of life”, areas for which the notion of return is as obvious as it is difficult to quantify. Increasing consideration given to public assets means having a holistic understanding of the effects of investments, that is to say, assessing an investment in all its aspects and in relation with all other investments. Moreover, because today’s investments have long-term effects, they need to **be sustainable**. This shows the strong convergence of long-term investment and sustainable investment.

D. Externalities, at the heart of long-term investment

The three dimensions of long-term investment - risk-taking, patient calculation and value creation - appear to be closely linked to the notion of externalities. If the report “*Betting on the long-term*”⁸ had already established the link between long-term investment and externalities, the crisis we have just experienced highlights the fragility of our economies in the face of external shocks.

In this context, it is essential to make the notion of externalities⁹ the focal point of our definition of long-term investment. On this basis, we propose to **classify long-term investments** into three categories, with which each is associated a major challenge.

First, there are long-term investments that prove to be, or are perceived to be, “profitable” and which, for this reason, do not encounter any particular difficulties in being financed by economic actors. This is, for example, the case of property investment, favoured by individuals in France.

A second type of long-term investment is the one that is profitable only by taking into account the externalities generated. This is the case for investments in renewable energy financed by the market once mechanisms such as the setting of a purchase price are in place.

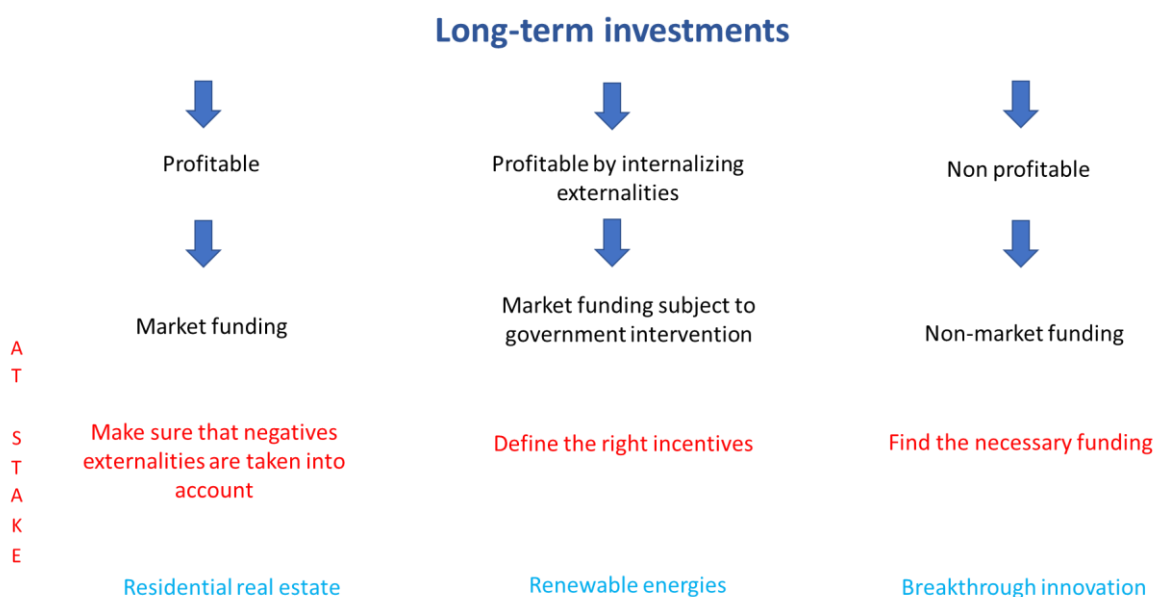
Finally, the last category comprises long-term investments that are unprofitable, even by “internalising” the external effects associated with them. This is the case, for example, of certain upstream research expenses, which are necessary for breakthrough innovations, but which cannot be recouped by those having incurred them because of the “public asset” nature of these innovations (characterised by highly concentrated costs and widely shared benefits).

⁷ Mancur Olson (1965), *The logic of collective action*, Harvard University Press.

⁸ *Op. cit.*

⁹ Traditionally defined by economists as the fact that an agent’s economic activity affects the well-being of another agent without either receiving or paying any compensation for this effect.

While these three types of investment are essential for the sustainable development of our economies, only some will generate potential growth or help preserve it.



Thanks to this classification, it is possible to better define the characteristics as well as the obstacles specific to each long-term investment category. Thus, for the first category of long-term investments, in the absence of any financing problems, difficulties would be low or even non-existent. In fact, as with all investments, it is essential to question the externalities generated: they can be negative and the profitability of the investment for the economic player then masks additional costs for society. Property investments, for example, have an impact in terms of urban sprawl, with adverse effects such as pollution, particularly from transport, or damage to biodiversity.

For the second category, the challenge is to define and implement appropriate incentives. This involves developing and applying instruments to integrate these externalities into the decision-making process (regulations, pricing, grants, taxation, etc.). Once these incentives have been put in place, market financing can effectively be found for these investments.

The challenge for the third category is different in nature, since it is not a question of channelling market resources, but rather finding financing. This is generally public funding because of the size of the amounts and the externalities attached to the investments. The financing is much less likely to be private ; however, it raises the question of private ownership of public assets. This is particularly the case for fundamental research financed through an unrecoverable outlay of funds by large companies in order to gain medium- or long-term advantages in terms of market position¹⁰.

All long-term investments are therefore not the same, in nature or in what they involve. All the externalities, both positive and negative, must be considered if all the characteristics associated with “long-term investment” are to be highlighted. To finance the long term, funds are needed, and, if possible, without any structural time consideration other than the one that would result from a suspension of activity. This is particularly the case for so-called “institutional” investors because their business model allows them to benefit from the reverse

¹⁰ Tribune de Patrick Lemaire, Le Monde dated 12 October 2021.

economic cycle in which their working capital requirement is structurally negative. However, these players must be in a position to agree to allocate these resources to investments with the most positive and least negative externalities.

This differentiated allocation cannot be based solely on market mechanisms; appropriate incentives are needed to internalise the costs or benefits of these externalities. This can also lead to financing which, in the first analysis, would appear to be a “pure loss” for those undertaking it, but not for society. It is therefore essential to identify and prioritise the externalities. This can be done on the basis of the impacts known when making the investment, but also by taking into account the societal choices we wish to make. In fact, the question of long-term investment refers to the range of roles that government can play as a producer of standards, a financing player or a strategist.

III. What is the problem?

To parody Boris Vian¹¹, in the Java of investments, the important thing is “where they fall”. Indeed, even if the available resources are overabundant (A) and, whereas long-term investment needs are increasing (B), it is clear that those resources are not satisfactorily allocated to needs(C).

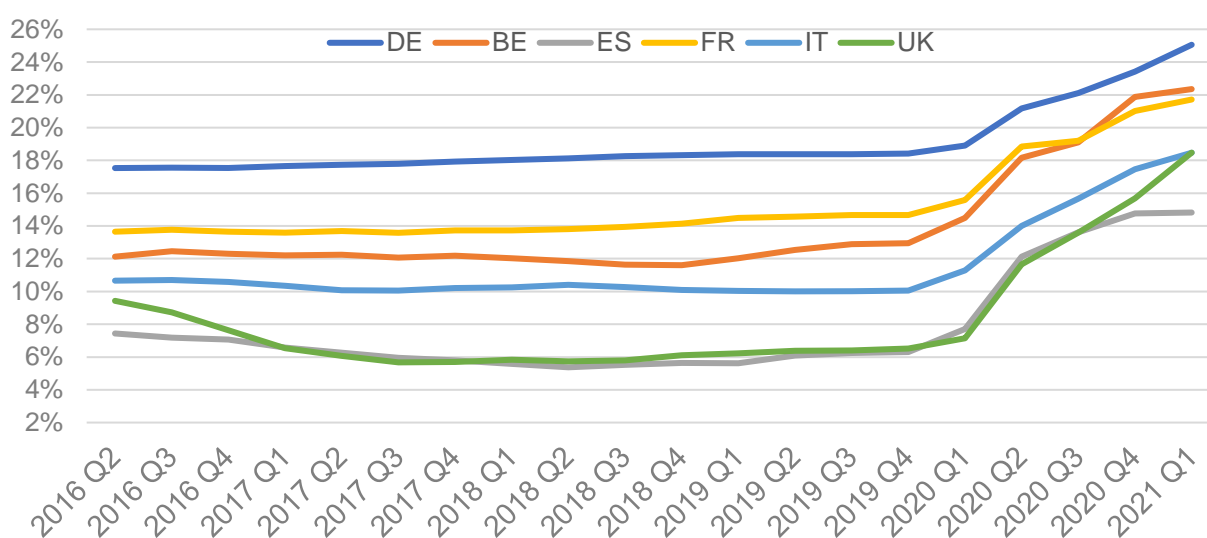
A. Abundant available financing - even more the case following the crisis

Whereas there had already been high levels of savings in France and Europe for several years, the pandemic crisis of 2020 increased those levels further due to the behaviour of households and companies (the effect of deferring spending and precautionary savings) and to the strong increase in available liquidity in the system following expansionary monetary and budgetary policies.

1. Households

High for many years, European household savings have increased significantly since the end of 2019 in the main Member States, as shown by data from the European Savings Institute (ESI).

Household savings rate in a few major European countries



Data: European Savings Institute (ESI), 2021

The excess household savings in the eurozone in 2020 amounted to €450 billion (compared to the last quarter of 2019), or around 4% of the eurozone's gross domestic product (GDP)¹².

Also according to data from the European Savings Institute (ESI), households in France saved on average 21.3% of their gross disposable income last year (compared to 15% in 2019), that

¹¹ Boris Vian (1955), “La java des bombes atomiques”.

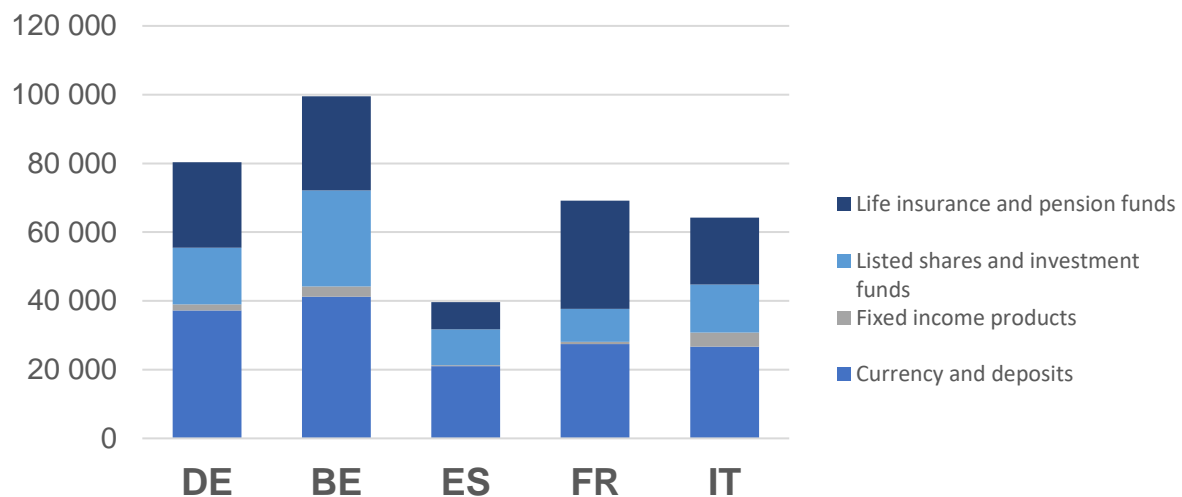
¹² European households: the double dividend of excess savings, 29 April 2021.

https://www.eulerhermes.fr/content/dam/onemarketing/ehndbx/eulerhermes_fr/news/290421/2021_04_29_Excess_savings_Europe_FINAL.pdf

is, the same percentage as in 1975, the previous high following the oil crisis. French households' gross savings in 2020 amounted to nearly €318 billion (increase of €100 billion in one year) according to INSEE (French National Institute of Statistics and Economic Studies)¹³.

Cash and deposits account for more than 40% of household savings in the main Member States of the European Union.

Composition of financial assets in EUR (first quarter 2021)

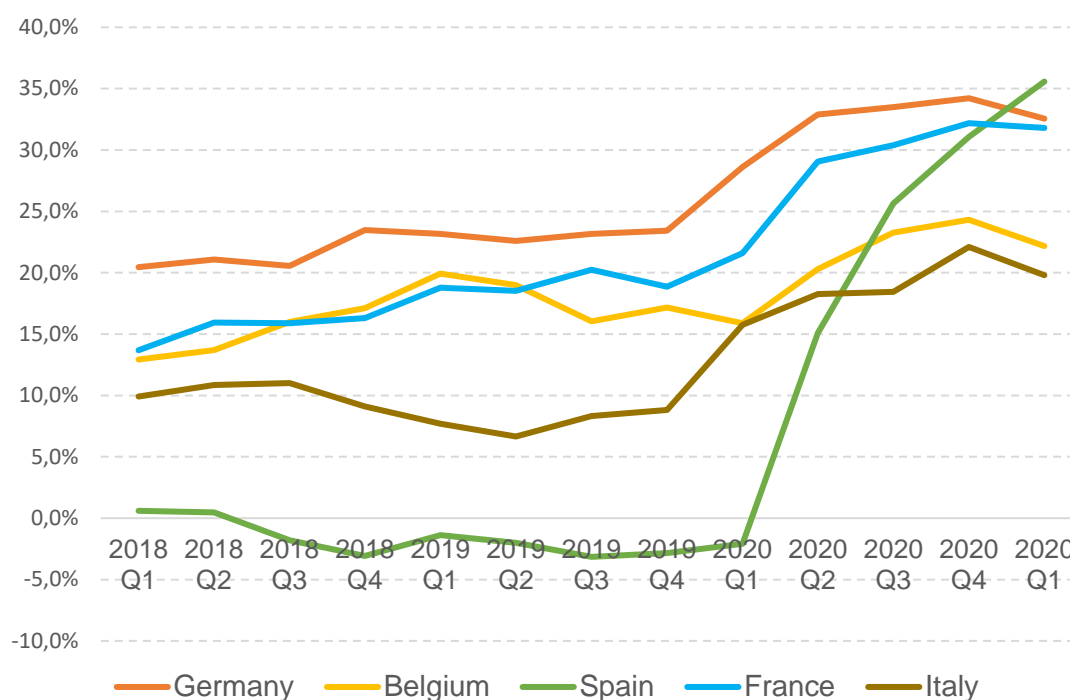


Data: European Savings Institute (ESI), 2021

The most liquid savings (currency and deposits) rose sharply during the crisis, more than 10 points in one year as far as French households are concerned. This significant increase was due to both **forced savings** (deferring purchases in a context of lockdown and closure of stores over certain periods) and **precautionary savings** (savings linked to uncertainty about the situation).

¹³<https://www.insee.fr/fr/statistiques/2830268#:~:text=Lecture%20%3A%20en%202020%2C%20le%20taux,4%20%25%20du%20revenu%20disponible%20brut.>
<https://www.insee.fr/fr/statistiques/2830268#:~:text=Lecture%20%3A%20en%202020%2C%20le%20taux,4%20%25%20du%20revenu%20disponible%20brut.>

Changes in the share of households' highly liquid savings during the crisis (as a % of total savings)



Data: European Savings Institute (OEE), 2021

2. Businesses

Due to deferred spending, particularly investment¹⁴ and especially thanks to the measures taken by government in the context of the crisis (deferred social security contributions, short-time working scheme, grants, state-guaranteed loans), companies' cash reserves also increased last year: this increase was seen across Europe, with €184bn in France (+26% vs 2019) ahead of the United Kingdom and Italy¹⁵.

This increase was, however, not uniform across all sectors, with cash concentrated mainly in the consumer goods, industrial and pharmaceutical sectors.

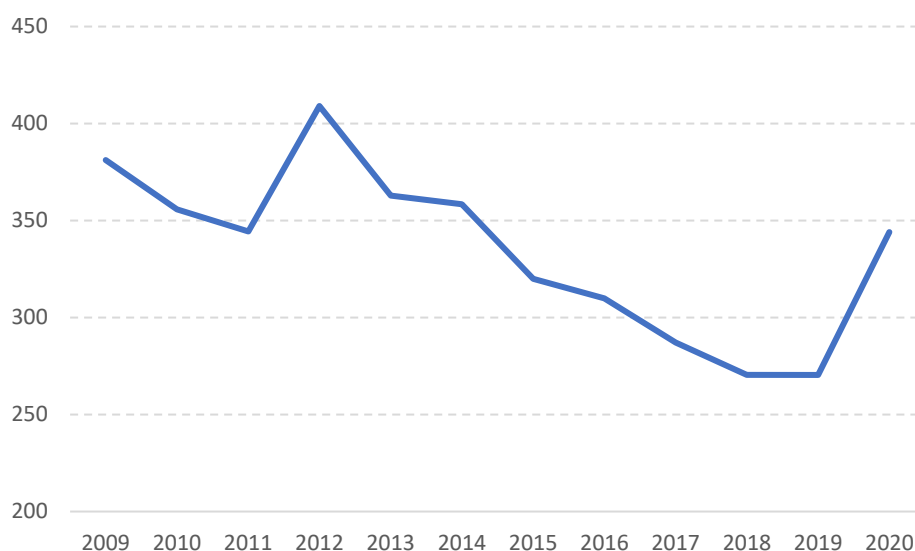
But even if companies have large cash reserves, they also have high levels of debt (they have used state-guaranteed loans in a preventive manner, often without consuming the funds borrowed in full). Companies entered the health crisis well capitalised and, to a large extent, had little use of precautionary debt. However, some, particularly in the most affected sectors (tourism, cultural services, etc.) came out of the crisis with weakened balance sheets and unable to quickly resume a policy of substantial investment. Their debt-to-equity ratio is high

¹⁴ <http://www.rexecode.fr/public/Analyses-et-previsions/A-noter/Covid-19-grandes-entreprises-et-ETI-signalent-moins-de-difficultes-ardues-de-tresorerie-mais-les-deux-tiers-reportent-leurs-investissements>

¹⁵ <https://www.eulerhermes.fr/actualites/tresorerie-entreprises-francaises-2021.html>

due to the relative low levels of equity¹⁶, particularly in SMEs¹⁷ - which limits their ability to quickly return to a policy of substantial investment. However, it is worth noting that the Banque de France's recent assessment of balance sheets for 2020 gives us a more nuanced approach to this debt¹⁸.

Change in the net debt ratio, after tax, of non-financial companies, in the eurozone



Data: Eurostat, 2021

3. Surplus of liquidity in the economy in general

a) Highly accommodative monetary policy

To allow governments and economic agents (companies, households) to borrow at a reduced cost and thus facilitate the recovery of activity, the European Central Bank (ECB) set its main key rate in 2016 at 0%. Since 2015, it has also implemented a “quantitative easing” policy¹⁹, that is, an asset purchase programme²⁰, to inject liquidity, on a huge scale, into the economy. The amount of assets purchased in July 2021 amounted to €3,038 billion.

Following the pandemic, in March 2020 the ECB launched an additional emergency programme, the Pandemic Emergency Purchase Programme (PEPP). The PEPP's initial envelope was €750 billion, which was increased at the end of 2020 to €1,850 billion, potentially until March 2022.

¹⁶ It should be noted that the level of equity is a major component in the risk of financial failure; see the report of France's *Observatoire du financement des entreprises* relating to microenterprises/SMEs of 12 May 2021:

<https://mediateur-credit.banque-france.fr/rapport-sur-les-fonds-propres-des-tpe-et-pme>

¹⁷ The equity shortfall of French SMEs, to date, stands at €30bn. This figure is 10 times higher than that of German SMEs (€3bn), but half that of Italian SMEs (€70bn). See the study “EUR100BN Equity Gap for French and Italian SME's” (Oct. 2020):

https://www.eulerhermes.fr/content/dam/onemarketing/ehndbx/eulerhermes_fr/news/091020/2020_10_08_SME_Equity_Gap_FINAL.pdf

¹⁸ Cf. [In 2020, support measures moderate the impact of the decline in SME activity | Banque de France \(banque-france.fr\)](https://www.banque-france.fr/fr/actualites/actualites/2020/09/2020-09-20-support-measures-moderate-the-impact-of-the-decline-in-sme-activity)

[Health crisis: what is the impact on SME debt? | Banque de France \(banque-france.fr\)](https://www.banque-france.fr/fr/actualites/actualites/2020/09/2020-09-20-health-crisis-what-is-the-impact-on-sme-debt?)

¹⁹ Purchase of government bonds or other financial assets by the ECB

²⁰ Mainly sovereign debt.

While this expansionary monetary policy ensures liquidity in the system, even during a period of acute stress, it distorts **the cost of time: in an environment where interest rates - including over several years for the best issuers - are negative and the yield curve** (the level of interest rates by maturity) **is flat, time no longer has a cost**. Why block liquidity during several years if the remuneration for the illiquidity is low or even negative?

Furthermore, while high liquidity allows financial players to strengthen their resilience in the face of downturns, the liquidity that is capitalised, in respect of Basel III and Solvency 2 prudential ratios, on their balance sheets, can no longer be used for investment in the real economy. Indeed, this would generate capital and profitability needs for activities that are not realistic. The economist Laurent Quignon²¹ ironically described the situation by saying that the Basel III and Solvency 2 ratios would have the virtues of the Achilles lance, healing the injuries that it inflicted.

b) Proactive fiscal policy

To deal with the crisis, the European Union also implemented a proactive fiscal policy.

First, **emergency measures** were taken to help economic players deal with the cash flow problems caused by the suspension of activity linked to lockdown. The Commission launched two response packages: the Coronavirus Response Investment Initiative (CRII22 and CRII+)²³, which came into force in March and April 2020. In particular, these two packages amend the Regulation governing the use of European structural funds. They also mobilise the cohesion policy, to support the sectors (health, SMEs) and territories most affected by the crisis. In addition, the European Investment Bank released a €40bn financial package and was responsible for managing a pan-European guarantee fund (EGF), mainly to provide financing to companies.

In addition to the short-term measures, and following an ambitious Franco-German proposal, on 27 May 2020 the President of the European Commission presented a proposal for a “**European recovery plan**”, called “**Next Generation EU**”, radically modifying the budgetary discussions then being held and marking a milestone in the history of European construction. These plans include two major developments: the raising of the ceiling to the EU’s own resources and the creation of a borrowing facility at EU level introducing new financial solidarity between the Member States. The €750bn recovery plan in place until 2024 is intended to provide funding to Member States in the form of grants and loans that will finance national recovery plans.

This policy at EU level has been strengthened by equally highly proactive national policies, also including emergency economic support measures and recovery plans implementing and supplementing the European plan (“**France relance**” in France)²⁴.

All of these measures helped contain the crisis and spur a rapid rebound in activity. But this has also led to a sharp increase in public debt. Thus, in the first quarter of 2021, public debt exceeded 100% of GDP in the eurozone (up more than 15 percentage points since the start of the crisis).

²¹ <https://economic-research.bnpparibas.com/Views/DisplayPublication.aspx?type=document&IdPdf=19080>

²² [Regulation \(EU\) No 2020/460](#) of 30 March 2020 on specific measures to mobilise investments in the health care systems of Member States and other sectors of their economies in response to the outbreak of Covid-19.

²³ [Regulation \(EU\) No 2020/558](#) of 24 April 2020 on specific measures aimed at providing exceptional flexibility for the use of the European structural and investment funds in response to the outbreak of Covid-19.

²⁴ For an initial detailed analysis see <https://www.strategie.gouv.fr/publications/comite-devaluation-plan-france-relance-premier-rapport>

B. The crisis has increased what were already considerable needs

1. A lack of long-term investment

The current challenges require more long-term investment: energy and environmental transitions, but also the economy of life (education, health, etc.), ageing populations, digital transition, artificial intelligence and, more generally, advent of a knowledge-based economy. But we also need to invest to address the structural weaknesses revealed during the Covid crisis. Thus, in the European Union, the investment requirement for infrastructure related to energy, transport, water and telecommunications was estimated at €688 billion per year before the crisis²⁵. In 2018, the High Level Task Force chaired by Romano Prodi and Christian Sautter, at the request of the European Association of Long-Term Investors (ELTI), estimated the annual investment required in social infrastructure (affordable housing, health and education) to be €142 billion a year. The minimum amount of investments required for the 2018-2030 period was thus estimated at €1,500 billion²⁶.

In total, infrastructure needs amounted to around 5% of the European Union's GDP before the crisis.

2. As needs explode

In light of the current crisis, the major challenges to be addressed are even greater. This is the case of the strengthening of the healthcare system and the structures for care provided to the elderly, the weaknesses of which the pandemic cruelly highlighted. Similarly, research in the areas of vaccines and therapeutic treatments is obviously strategic. However, the essential would be missed by failing to highlight **the link between pandemic risks and the environmental crisis resulting, in particular, from the loss of biodiversity**²⁷. **Similarly, the challenge of “digitalisation” to deal with the crisis through working from home and remote schooling, to accelerate the digital transformation of businesses because of the crisis, as well as to enable the development of digital administration, is crucial to avoid a digital divide.**

Challenges that until now were more or less latent have become obvious and immediate: the question of European sovereignty, which could be described more accurately as strategic autonomy; the continuity of essential production chains; relocation and the questioning of international specialisation; and the importance of having resilient strategic infrastructures, etc.

In the field of the energy transition, the commitments made, both in France and internationally, as part of the drive to comply with the 2015 Paris Agreements, require a real paradigm shift and raise the question of financing the investments needed to fulfil those commitments. These global challenges require not only more funds directed towards low-carbon investments, but, at the same time, a drastic reduction in funds supporting a carbon-based economic model.

In France alone, the additional financing needs²⁸ are between 15 billion and 18 billion euros a year until 2023, then between 32 and 41 billion euros a year between 2024 and 2028. Such levels of investment cannot be assumed by government alone. For private financing to be

²⁵ European Investment Bank (2016), *Restoring EU competitiveness*.

²⁶ Report of the High-Level Task Force on Investing in Social Infrastructure in Europe (2018), *Boosting Investment in Social Infrastructure in Europe*: <https://www.eltia.eu/activities/high-level-task-force-on-social-infrastructure>

²⁷ See CDC Biodiversité's report, *Santé et Biodiversité: nécessité d'une approche commune*, December 2019.

²⁸ I4CE, Hadrien Hainaut, Maxime Ledez, and Ian Cochran (2019) “Landscape of Climate Finance in France”, I4CE.

deployed there needs to be a sufficient supply of projects and an appropriate distribution of the risk.

Another example is the digital transition that the European Union must take charge of in the perspective of the “4th industrial revolution”. This means not only developing skills to reduce the digital divide between EU regions, but also to reduce the EU’s dependence on mainly non-European digital data providers. This is a sovereignty issue which includes cybersecurity²⁹ and for which we are only in the early stages.

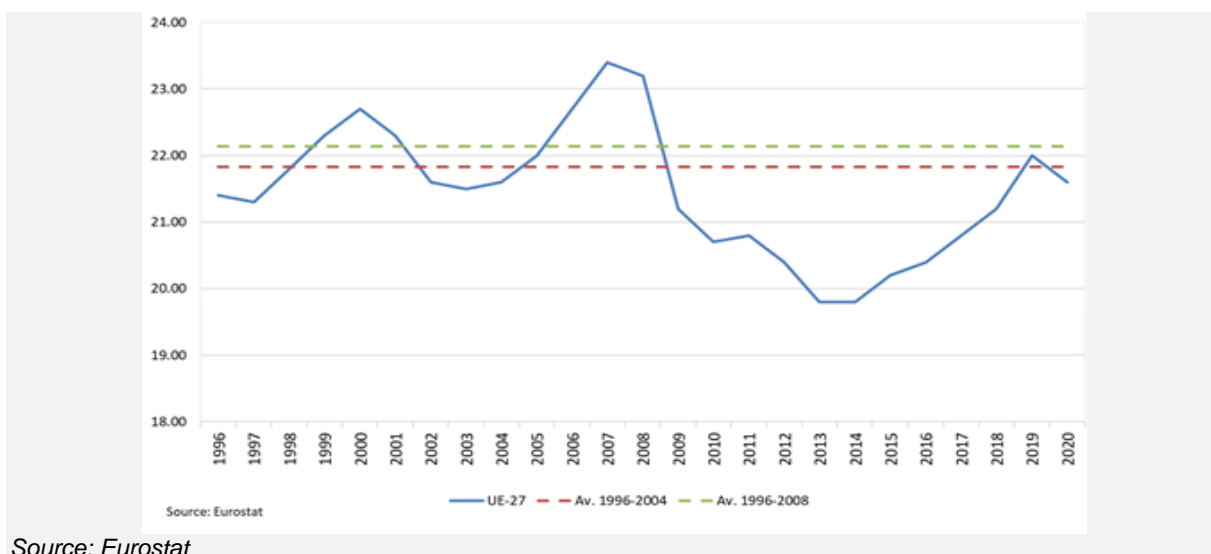
Finally, without going into detail, we mention that many European countries face the challenge of reindustrialisation. The decline in the weight of industry is not a French exception³⁰. In the particular case of France, the challenge for the next 10 years is to successfully modernise industry while continuing to improve the competitiveness of production in France and its overseas territories. These challenges are found in the recovery plan and, of course, in France 2030³¹.

C. But the allocation of financing for investment is not satisfactory

1. Quantitatively

As shown in the chart below, the level of investment as a percentage of European GDP is still lower today than in 2008.

Gross fixed capital formation for EU28, as % of GDP (current prices)



Investment rose quite sharply from 2014, with a sharper rise from 2018. Over the past year, the total volume of investments in the European Union increased by around 3% compared to the previous year (i.e. at a faster rate compared to growth) and the rate of investment at the

²⁹ This is the inspiration behind the Franco-German initiative *Gaia-X*, which aims to develop data storage infrastructures within the single market.

³⁰ See in particular the work of *La Fabrique de l'Industrie* chaired by Louis Gallois and Pierre-André de Chalendar. www.la-fabrique.fr

³¹ *France Relance* offers resources to support what could be considered as a new asset class: the *industrial venture*. It is the drive to renew the industrial fabric by supporting the *industrialisation of innovations driven by industrial start-ups, particularly deep tech*.

end of 2019 was higher than its long-term average throughout the Union, with the exception of southern Europe. However, global trade disputes and weakening global trade began to curb this growth even before the outbreak of the Covid crisis. As a matter of fact, **when the coronavirus began to spread, the advent of the economic crisis, the sharp rise in uncertainty and the slowdown in trade as a result of the activity restrictions led to companies adopting a strong wait-and-see attitude, despite the support measures from which they benefited.** Against this backdrop, the suspension of investment was almost inevitable.

It is clear that the strong rebound observed in 2021 makes comparisons difficult and some time will be needed to obtain data on comparable situations for a long-term analysis.

The sharp deterioration in public finances is also likely to affect government's ability to support long-term investment in the medium term. This is particularly true in terms of infrastructure financing - largely driven by local authorities, notably in France, where they account for nearly 70% of public civil investment (civil engineering works, housing, education and environmental protection).

Quantifying the impact of public investment on growth is a perilous exercise as there are many parameters. However, as the OFCE (French Economic Observatory)³² points out, the studies carried out on the impact of public investment "show there to be a strong effect of investment on short-term economic activity, that is to say, a high multiplier"³³. The OFCE thus estimated that the multiplier increases during times of crisis, to reach high values of between 1.3 and 2.5, specifying that "the values of multipliers are very likely to be in the upper part of the range"³⁴ when the growth rate and interest rates are low. In this situation, there is no crowding out of private financing by public financing.

As the Governor of the Banque de France³⁵ points out, Europe is still an economic heavyweight, but the weakness of long-term investment means that it is unable to project into the future. In a nutshell, it lacks power.

2. Dynamically

The risk of a vicious spiral exists, leading to a collapse of our current growth and development model due to a lack of long-term investment. International specialisation has led to massive relocations of labour-intensive industries and a growing dependence on economic areas, particularly in Asia, which do not have the same standards as Europe concerning environmental, social and governance issues and human rights. This relocation of labour-intensive industries implies a relative strengthening of high-tech industries in the countries of the North. However, large parts of the population do not have access to these newly created jobs because they do not have the necessary education or training³⁶. This international specialisation also has serious ecological consequences linked to supply chains. All of these elements are likely to lead us into a vicious spiral.

As regards finance, Europe accumulates stumbling blocks. Abundant savings are not invested in a sluggish economy but migrate to more economically dynamic continents. At the same time,

³² Mathieu Plane, Xavier Ragot, Francesco Saraceno (2020), *"Investissement public et capital productif en France: état des lieux et perspectives"*, Policy brief No 79, OFCE.

³³ A multiplier equal to 2 is very high, to the point of generating tax resources allowing for the repayment of the debt arising from public investment. It is then said that public investment is self-financed.

³⁴ Xavier Ragot and Francesco Saraceno (2016), *Investissement public, capital public et croissance*, OFCE.

³⁵ <https://www.banque-france.fr/intervention/conference-de-haut-niveau-college-deurope-31-mars-2021-le-retard-de-croissance-de-leurope>

³⁶ Cf. Vaclav Smil (2013), *Made in the USA the rise and the retreat of American Manufacturing*, MIT press.

local companies will seek financing outside the European Union. These mechanisms are mutually reinforcing and explain, in part, at least, the persistent weakness of investment in Europe.

Faced with falling value added, living standards are maintained through ever increasing debt, either private, for example in the United States, or public in the context of social transfer policies. These mechanisms, which are not viable in the long term, help maintain consumption levels that are no longer financed by revenue from activity. In the long term, however, this increase in debt also undermines the ability of economic players, especially public authorities, to finance the investment needed for growth.

All in all, the recent health crisis has highlighted, abruptly, the fragility and non-sustainability of a mode of growth and development in which investment is above all a financial investment, disconnected from the real economy.

3. Qualitatively: illustration with the environmental transition

In 2019, European investments made to mitigate climate change increased by 2.7% year on year, to reach €175 billion. The biggest increase was in the renewable energy sector. In energy efficiency, however, investment has come to a standstill.

Since 2016, investments to mitigate climate change have decreased slightly as a percentage of GDP and total investment, and according to the European Investment Bank (EIB)³⁷, this trend is expected to continue in 2021.

In terms of investments by business, it is difficult to isolate those that can be defined as long-term. However, with regard to climate transition investments, it is of particular concern that, according to the EIB's investment survey³⁸, while 45% of EU companies have invested in climate change mitigation or adaptation measures (compared to 32% in the United States), they are less likely to make such investments in the next three years.

In terms of infrastructure investments, large-scale projects are unlikely to be affected in the immediate future. Conversely, smaller investments in renewable energy and energy efficiency could, however, be further adversely affected³⁹. Similarly, as a continuation of past trends, it is to be feared that, concerning investments in green infrastructure, there will continue to be a lack of investment in new equipment. Thus, while infrastructure funds are increasingly allocated to renewable energy projects, the majority of green infrastructure projects are already operational and do not require any investment for their development. Only a third of the assets are "greenfield", that is, are new assets that investors finance from the inception.

However, it is essential to increase investment in energy in order for the EU to achieve its goal of reducing greenhouse gas emissions by the end of the decade. The proportion of these investments is expected to increase from 1.3% of GDP a year⁴⁰ to 2.8% of GDP over the next ten years. By adding investment in transport, the total over the next decade is expected to reach 3.7% of GDP a year.

Unfortunately, the awareness of this issue remains relative: just over half of European Union companies believe that the transition to a low-carbon economy will have no impact on their activities in the next five years⁴¹. And when it exists, it is not always enough to take action: with regard to local authorities, while half of them have, since 2017, increased their "climate"

³⁷ https://www.eib.org/attachments/efs/economic_investment_report_2020_2021_key_findings_fr.pdf

³⁸ The BPI survey indicates a different situation in France. See

https://lelab.bpifrance.fr/get_pdf/2679/barometre_pme_bpifrance_rexecode_2021t4_vf.pdf

³⁹ https://www.eib.org/attachments/efs/economic_investment_report_2020_2021_key_findings_fr.pdf

⁴⁰ Average over the past decade.

⁴¹ EIBIS survey, 2020

investments, two-thirds of them still consider that the level of investment is insufficient despite the urgency of this issue.

IV. A gap that dates from a long time in the past

Based on this widely shared observation, it is important to wonder whether the lack of long-term investment is the result of difficulties in converting liquidity into investments by intermediaries (A), government's failure to act (B) or, more fundamentally, an inability to take the right risk at the right time (C).

A. The question is that of intermediation, not of intermediaries...

As mentioned above, for many years, French people's savings have been mostly liquid and risk-free. In September 2020, two-thirds of French people's financial savings were invested in non-risky fixed-income products, and only one-third in equity products mainly intended to finance companies⁴².

According to the AMF (French financial market regulator)⁴³, one in two French people refuses any risk on their investments even if the return on a risk-free investment is low (or even negative in real terms). The satisfactory return expected on average for risky savings is 5.2% per year: below this threshold, there are more savers who refuse to take the risk than savers who accept it.

Households' aversion to risk is therefore incompatible with the financing needs of the economy, which comprise long-term and risky investment, if there are no financial intermediaries⁴⁴ to reconcile investor constraints with financing needs. Therefore, to enable household savings to finance investments, intermediaries must be able to fully play their transformation role while being sufficiently resilient to do so.

1. Resilience of intermediaries

For a boat at anchor, should just one link in the anchor chain break, the boat will be adrift. The same applies to financial systems. The robustness of financial intermediaries is therefore a decisive factor in ensuring the solidity and proper functioning of transformation mechanisms.

History teaches us that economic crises often result from financial malfunctions, speculation and, more generally, when there is a gap between the real economy and financial results. This was particularly the case for the sub-prime crisis and the bursting of the internet bubble at the beginning of the 2000s. One of the peculiarities of the current crisis is its non-financial origin. **In 2020, finance did not seem to be the cause, but the solution!** The financial sector has thus been able to deploy, often in coordination and with the support of government, instruments to meet the immediate needs arising from the shutdown of the economy.

The Covid crisis has hit all global economies and tested the solidity of the European banking and insurance systems. That said, financial institutions responded and continued to operate during lockdown, granting loans to, or insuring, economic agents. This solidity is due to the quality of their own funds, but also their high level of liquidity, which in turn was

⁴² Jean-Hervé Lorenzi (2021), *"Comment la finance peut-elle contribuer à la sortie de crise ?"*, Le Cahier du Cercle des économistes.

⁴³ AMF savings and investment survey, 2020.

⁴⁴ For a slightly old but still current analysis of the notion of a financial intermediary, see ULLMO, Yves. *"Intermédiation, Intermédiaires Financiers et Marché."* *Revue d'économie Financière*, no. 89, Association d'économie financière, 2007, pp. 23-38, <http://www.jstor.org/stable/42904452>

due to the prudential strengthening of their capital undertaken since the 2008 crisis and the expansionary monetary policy implemented since then.

This strength of the financial sector was highlighted by the Haut Conseil de Stabilité Financière (High Council for Financial Stability in France)⁴⁵, which notes that, over the past decade, *“the solidity of banking institutions and insurance institutions is better assured.”*

This situation is an opportunity for long-term investment. While intermediaries have been fully involved in the first two of the three phases of the crisis (supporting the economy when shut down, providing financing for recovery), they should now work to kick-start long-term investment.

2. Diversity of intermediaries

There is no shortage of financial intermediaries; they are increasing in diversity. Each intermediary contributes to the allocation of savings and even if all these financial players do not have the same ability in directing funds towards long-term investments, all financial players have a part to play. Long-term investment lies within all their remits, to varying degrees. A diversified ecosystem of financial players is conducive to long-term investment, through a network of inter-linked players of varying abilities.

In general, in Europe, households largely entrust their savings to banks, investment funds and insurance companies. Second-level intermediaries act on behalf of the base-level intermediaries, they also play an important role in allocating savings to specific vehicles: notably, debt funds, private equity funds, infrastructure funds etc. . The “market” intermediaries to which European households directly entrust their savings remain marginal. It should also be noted that in Europe, individuals who have savings, invest little in private equity funds. These investments appear, in some way, reserved for a few leading families served by richly-endowed family offices. Few, if any, banks or fund managers have put in place mechanisms to direct this type of product to private clients; a situation that differs from that in the United States.

In recent years, this ecosystem has diversified. Alongside traditional financial intermediaries, digital transformations have led to the emergence of new digital banks, fintech start-ups and the entry of Big Tech⁴⁶ in the financial sector. Fintechs - term that means companies, generally start-ups, which operate in the technological innovation sector used in particular in financial and banking services, and in particular neobanks - are experiencing rapid growth. In France, nearly 600 innovative fintech companies operate in all areas of the sector: financing for 22% of them, regulation and risk, payment services, operational services, investments and solutions, and the management of personal finance and budgets.

Depending on the societal choices made, but against the backdrop of ageing populations, pension funds or vehicles that finance part of retirement income have also developed and are playing a growing role.

Finally, these different types of intermediaries have become accessible to a broader range of savers: this is obvious with online banking and the development of digital financial services, but it is also true of more “technical” forms of intermediation, such as private equity funds, which are attracting increasing interest from wealthy individuals, but also from less wealthy households. Bpifrance’s initiative has thus been very successful with the latter⁴⁷.

⁴⁵ Press release dated 18 March 2020.

⁴⁶ GAFAM, or Big Five.

⁴⁷ <https://fonds-bpifrance.123-im.com/>

In addition, new market intermediaries have developed recently: this is particularly the case for SPACs (special purpose acquisition companies), companies created specifically to finance various transactions not yet identified when the structure is set up. These vehicles attracted a lot of interest in 2020, raising €70bn in capital⁴⁸, four times more than in 2019. However, they are not without risks for individuals.

In recent years, the financial intermediation ecosystem - that is, players able to take on a share of the risk of the transformation of liquid savings into long-term investment - has diversified. This should improve the ability of the financial system to meet the investment needs of the economy.

B. The State to the rescue of the economy or “Help! the State is back”?

Private financing is more readily directed towards productive or short-term investments. The reason is simple: the underlying models are easier to read and thus more attractive to private players. Public investment is essential for social impact investments that do not have sufficiently viable business models with satisfactory maturities. The public investor also invests in economic impact investments, in particular to reduce the risk of private players or support them because their activity is deemed essential, either at the local or national level.

These two types of investment, both private and public, pursue strategies theoretically based on different criteria and methods of assessment. Private investment generally seeks to maximise the return over a defined time horizon while public investment goes beyond purely financial analysis. The latter uses a socio-economic assessment taking into account the positive externalities generated by the investment and the “societal” gain in the calculation of profitability. But a certain convergence of operating modes has appeared between the two, making this classification less clear.

To meet the needs for economic recovery, public financing is needed. Far from being disputed, this use of public funds is, on the contrary, seen as essential as it is legitimate. For France, for example, the recent report of the *Conseil national de productivité* (CNP)⁴⁹, attached to *France Stratégie*, recommends maintaining a generous policy of support to businesses to prevent a number of them, although productive, from going bankrupt, even if a few “zombie” companies are kept alive artificially⁵⁰. Note, however, that to date, this risk has not yet materialised.

However, in a context of limited public resources, it is necessary for public expenditure to leverage private spending - particularly in terms of investment - in two ways.

On the one hand, through **financial instruments**: public intervention then takes forms other than grants or uses grants to generate private financing. This is a way of instilling “private” finance logic into public decision-making. At the European level, an illustration can be given with the European investment plan, or “Junker plan”, implemented in 2015 and the **InvestEU** mechanism that succeeds it over the period 2021-2027. These EU guarantee programmes are intended to encourage risk-taking. **Blending** is another example of this, this instrument combines traditional grants with other financing instruments (loans, debt, guarantees, or other) obtained from an “implementing partner”, namely the European Investment Bank (EIB) or

⁴⁸ J.H. Lorenzi (2021), *op.cit.*

⁴⁹ Conseil National de Productivité (2021), *Les effets de la crise Covid19 sur la productivité et la compétitivité*, CNP.

⁵⁰ Philippe Martin, Deputy Chairman of the Economic Analysis Board, points out however that numbers of company bankruptcies, down by around 30% thanks in particular to State-guaranteed loans, will increase in 2021 and that debt remains “the leading predictor of company bankruptcy”.

National Promotional Banks and Institutions (NPBIs) that have signed a cooperation agreement with the European Commission⁵¹.

On the other hand, through incentives aimed at **directing private financing** through different ways: regulatory standards, soft law, taxation. A reverse logic is then at work, since it is a matter of instilling public thinking into the decision-making of private investors. **The EU taxonomy** is a major illustration of this approach. By defining what is “green”, the European Commission provides savers, companies and intermediaries with a common language that enables them to classify future investments.

This classification system common to the EU to identify sectors and activities considered to be “sustainable” should be applicable by 2022. It is based on the identification of three types of activities: low-carbon activities, activities in transition⁵² and “enabling” activities⁵³. Within each of these types of activities, economic activity is considered to be sustainable, helping to achieve at least one of the six predefined green finance objectives: (1) mitigate climate change, (2) adapt to climate change, (3) make sustainable use of water resources, (4) help preserve biodiversity, (5) develop the circular economy and (6) prevent and control pollution risks. To maintain consistency, it is stipulated that the achievement of one of these objectives should not affect any of the other five (the “do no significant harm” principle).

Once implemented, this taxonomy should allow for the definition of indicators (the Green Asset Ratio), reporting standards, fund targeting objectives (starting with European funds such as InvestEU, for example) and thus, through small steps, direct private investments towards green or transition assets. This text on the EU taxonomy is as important as it is sometimes perceived difficult to apply. It seems to us that it must also take into account a social aspect that is essential for the acceptance and understanding by households to be properly taken into account.

1. A Europe of investment through stimulus?

The Member States of the European Union have submitted to the European Commission their **national recovery and resilience plans** (NRPP), which set out the reforms and public investment plans they intend to implement with the support of the Recovery and Resilience Facility (RRF), a key component of the NextGenerationEU (NGEU) mechanism.

It is difficult to compare national plans because the financial data reported sometimes have different structures and many spending or investment plans may be included in different sub-categories.

However, the Bruegel think tank has published a table to visualise the allocation of financial resources, showing for each country the share allocated to the “green” and “digital” components, which gives an initial, quite revealing overview⁵⁴.

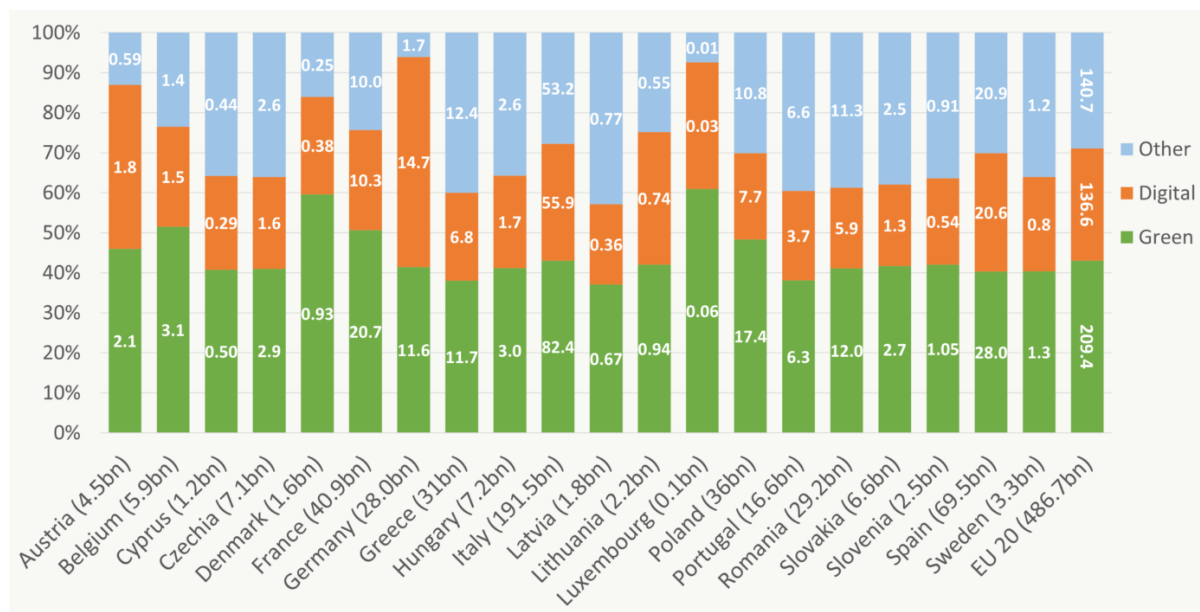
⁵¹ The CDC and its subsidiary Bpifrance, in France.

⁵² For which low-carbon technologies are not currently available.

⁵³ Those that are essential for another activity that is sustainable.

⁵⁴ Each country submitted plans, the green and digital components of which must account for at least 37% and 20% of the total plan, respectively.

Overall resource allocation in national recovery and resilience plans (% of total and € billions)



Source: Bruegel Dataset "European Union countries' recovery and resilience plans"⁵⁵

2. French case

France submitted a national plan in support of its request for €40bn NextGenerationEU financial support. This plan was approved at European level by the Ecofin Council on 13 July 2021. It sets out **three priorities: ecology, competitiveness, social and territorial cohesion**, structured into nine components comprising spending both on investment and on reforms to be carried out in the coming months.

Thus, a set of 91 measures (70 concerning investments and 21 concerning reform plans) was submitted to the European Commission. 46% of the planned spending is earmarked for policies aimed at achieving the EU's target of climate neutrality by 2050 and 21% is earmarked for the digitisation of the economy.

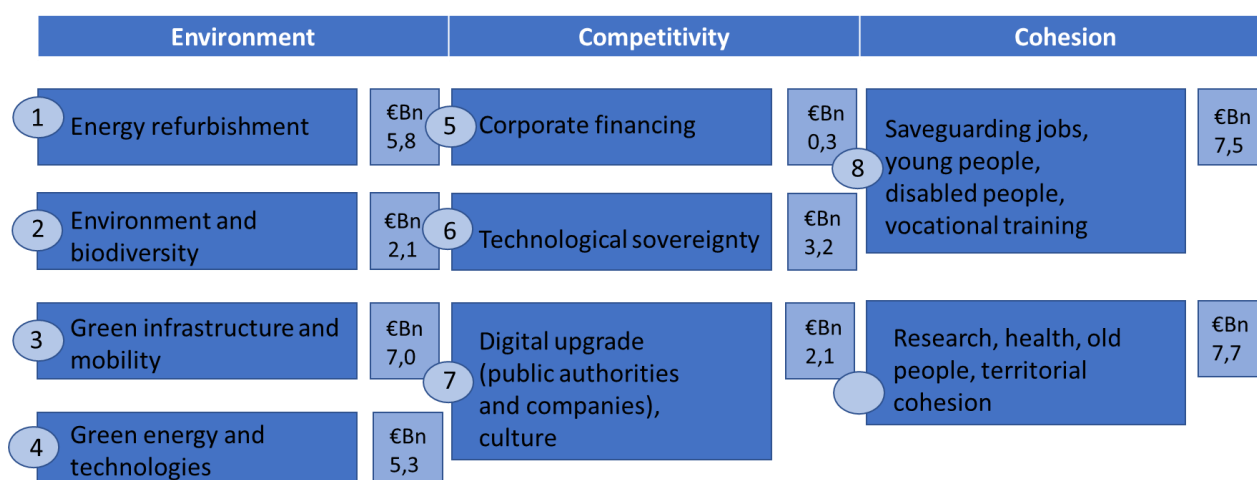
These measures are in line with the EU's priorities; the "ecology" part of the plan, for example, includes €4.4 billion support for the railway sector⁵⁶. €1.9 billion will be used to develop the zero-carbon hydrogen sector, in line with the EU's strategy on the subject.

Finally, the French plan is also in line with the priority set by the European Commission concerning digital technology with the development of fibre optics, the fight against "digital illiteracy" and the digital transformation of the State and SMEs.

⁵⁵ Available at the following link: <https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/>

⁵⁶ Through its Green Pact, the European Commission promotes increased use of trains as "an attractive and sustainable way [to] connect citizens and businesses."

The nine components of the French national recovery and resilience plan⁵⁷



Source: DG Trésor, note 29 April 2021

As the financial stimulus packages were unable to meet France's long-term investment needs, it was necessary to supplement the stimulus measures encompassed in the so-called *France Relance* plan. **In October 2021, the recovery plan was supplemented by a €30 billion investment plan, "France 2030"**⁵⁸, intended in particular to meet the challenge of the energy transition, by bringing about the emergence of the next generation of technology leaders and support the transitions of the sectors of excellence (automotive, aeronautics, space). The plan is based on the search for synergies with the private sector and reflects the government's desire to finance investments with strong externalities, to encourage breakthrough innovations. The investment plan is structured around 10 objectives focused on the areas of zero-carbon energy, transport of the future, a food revolution, revitalised health sector and finally the conquest of new spaces. In the past, investment plans sometimes encountered difficulties in their implementation, even though progress was noted by the Court of Auditors⁵⁹. To be effective, France 2030 will need to have a deployment structure that allows for the emergence and efficient selection of projects.

C. ...but it is due to the inability to assume the risk of the long term

Investing for the long term means assuming the risk of the long term. In our financial system, savings come mainly from households; this raises the question of who bears the risk. It is not socially acceptable for households to bear all the risks of the long term. Intermediation helps to distribute risks according to different criteria. First, it distributes them over time, with intermediaries offering savings vehicles with management profiles that evolve during the life of the savings product. Vehicles may also take into account the varying levels of risk that households are prepared to take on. Finally, intermediaries also propose appropriate strategies by diversifying portfolios, taking various insurances or guarantees, implementing asset-liability management over time as well as other measures. Furthermore, it is clear that passive management and individual management do not encourage risk-taking. Regulators give little attention to the issue, not placing it at the centre of their work.

According to this reading, **the weakness of long-term investment in Europe stems from an inadequate sharing of risks; the recent crisis only accentuating this imbalance.** The rise

⁵⁷ For details of the measures and implementation schedule, see the Contexte website: https://www.contexte.com/article/pouvoirs/les-mesures-du-plan-de-relance-europeen-mise-en-oeuvre-par-la-france-134788.html?utm_medium=journal&utm_source=lien&utm_campaign=partage

⁵⁸ <https://www.gouvernement.fr/france-2030-un-plan-d-investissement-pour-la-france-de-demain>

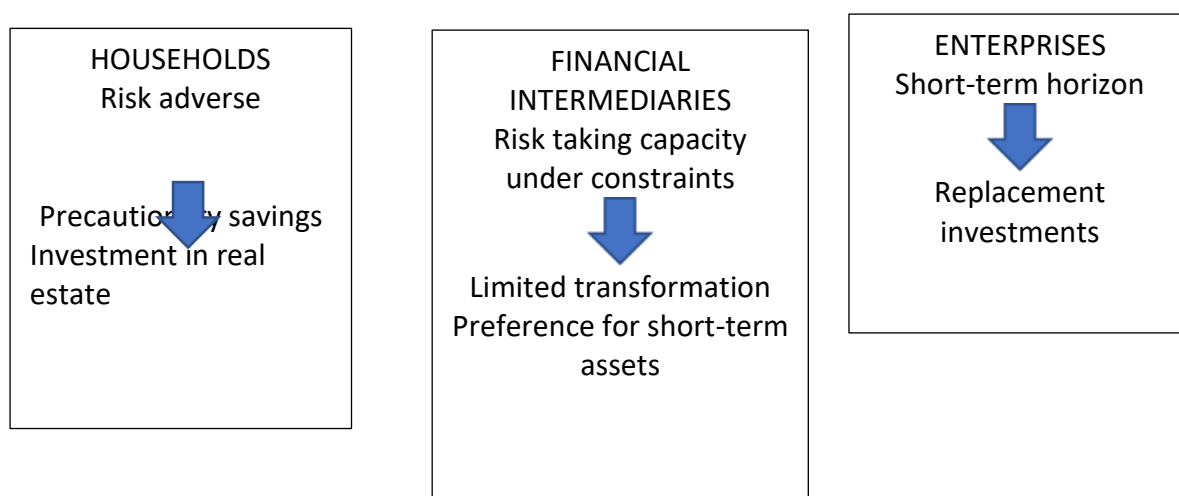
⁵⁹ <https://www.ccomptes.fr/fr/publications/la-mise-en-oeuvre-du-programme-d-investissement-d'avenir>

in uncertainty has led economic players (households, companies, financial intermediaries) to limit their risk-taking and shorten their decision-making horizon. This has led to a growth in precautionary savings of households, a preponderance of renewal investment in companies and limited risk-taking by financial intermediaries.

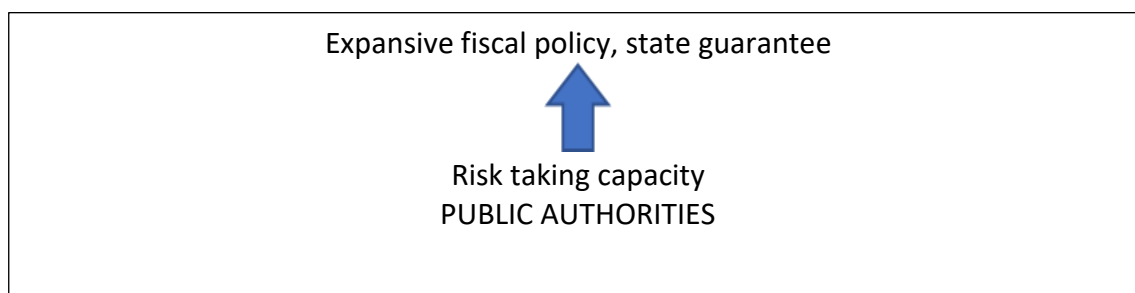
At the same time, long-term investment needs are increasing to meet the needs of breakthrough innovation, renewal of infrastructure and ageing populations. Moreover, we have to deal with this scissors effect in a context where the environmental, energy and digital transition is more pressing than ever.

In this context, national governments and EU institutions have acted to assume a part of the risk for their own account. This has led to expansionary budgetary policies and public guarantee schemes, which are in particular implemented through the stimulus plans.

Risk sharing between the players at the origin of the long-term investment deficit



Long-term investment gap in relation to needs



However, this massive public financial support is not sustainable over time. It generates too much public debt for future generations without, however, allowing for the financing of the necessary long-term investments. It is therefore necessary to manage these imbalances better and to mitigate them.

v. Is the long term now?

The problem of long-term investment is not a lack of financial resources, poor intermediation or insufficient political will, it is first of all an inadequate distribution of risk-taking among the various players.

Government plays a central role for all types of long-term investments. Government can either channel funds toward long-term investments, or make such investment possible, or even finance the investments directly. The need for government intervention increases linearly with the externalities produced. Public intervention also aims at assuming and spreading, over the whole of society, the risks that private actors cannot or do not want to bear.

To play its full role, government must decide where investment is directed as well as make changes to regulation in support of this redeployment. Finally, information and education for all make this intervention even more effective.

Government therefore plays a central role in long-term investment, either deciding where such investment is directed (first type of long-term investment), or making it possible (second type), or financing it directly (third type). The need for its interventions increases as the externalities produced grow. Government also plays a key role in assuming the risk that the other players do not want to bear on their account. The residual risk has obviously increased with the recent crisis. Our first set of proposals aims to **preserve and grow the ability of government to generate long-term investment** (B).

The question of long-term investment is not a lack of funds, but a non-optimal allocation of those funds. However, this allocation is made possible by intermediaries who must be able or obliged to take into account externalities and assume a share of the risk linked to the illiquidity resulting from a long-term commitment. Our second set of proposals deals with measures that should **enable intermediaries to fully play their role in transforming short-term resources into long-term investments** (C).

But as we have pointed out, not all long-term investments are equal. In the context of limited resources, investments with the most positive externalities and the least negative externalities should be favoured in principle. Of course, this theoretical approach runs counter to our limited knowledge and the uncertainty that characterises the long term. We therefore need to evaluate these externalities as best we can and, above all, rank them in order of priority according to our collective preferences. This last point still takes us back to the role of government. Our last set of proposals focuses on **defining the conditions to be put in place for an assessment of long-term risks and returns that accurately reflect our societal choices** (D).

But before presenting these proposals, we must first try to resolve a few questions (A).

A. Some preliminary questions in the light of the crisis

The Covid-19 crisis has highlighted three sets of questions.

In order to cope with the recent crisis, it has been necessary to relax certain prudential rules or, at the very least, to use all the flexibility of interpretation they offer. This easing demonstrates that **the current prudential system is certainly too procyclical and insufficiently discriminating in terms of risk**. The transposition of Basel IV⁶⁰ and the amendment of Solvency II are opportunities to address these shortcomings.

The Solvency II Directive, which came into force in January 2016, aimed to protect insurers from the risk of bankruptcy. However, by putting in place a framework to reflect market risks, it has made investing in equities too expensive for insurers who need to raise more capital. Even though a new “long-term” share class⁶¹ has been introduced, the eligibility criteria chosen appear too restrictive. This is why insurers have largely neglected this measure⁶². Contained in the Commission’s communication on the revision of Solvency II, a relaxation of the criteria for defining long-term invested shares is mentioned. In the forthcoming discussion, it is therefore necessary to ensure that the terms of this easing are so that this measure can really favour long-term investment by insurance companies.

Secondly, stimulus policies have highlighted **the importance of public investment and state guarantees in directing investment and maintaining total investment at a sufficient level. But while state intervention must have a strong leverage effect, attracting a large volume of financing for long-term investment, it must not lead to new risk or to windfall effect. In addition, state intervention must also act as a compass, directing investment flows and thereby concentrating funds where they are needed.**

Public debt, which is increasing, is potentially causing a major crisis of confidence with significant economic repercussions. To take France’s example, at the end of 2020, France’s public debt was 115.7% of GDP, up 16 percentage points following the emergency measures taken to contain the effects of the Covid crisis⁶³. The question then arises of the ability of government to **direct private financing towards investments that are essential for the community but with a high-risk profile**. For investments of general interest, part of the answer probably lies in the design and implementation of innovative financial structures in which public players take on the riskiest part and then “pass the baton” to private players. Yet, at the same time, it is important to avoid the trap of the state assuming all the losses while profits go to private hands.

Finally, stimulus policies have clearly highlighted **the importance of “meaningfulness” sought by the economic players**. This orientation is not new; it first touched the world of work with the place of workers in the production chain, but it now also concerns the financial sphere with savers who are now seeking to give “meaning” to their savings. Aside from individuals, more and more businesses and intermediaries must both manage their reputational risk and adopt an approach in line with their “*raison d’être*” (their mission). While

⁶⁰ As the finalisation of the Basel III reform is considered to be a fully-fledged regulatory wave for the financial industry, it has been given the name “Basel IV”. It provides for the review of the methodology for calculating all risks: standard approaches and internal models of credit risk, market risk and operational risk.

⁶¹ Proof must be provided to show that these shares are effectively held for the long term; if so, insurers can benefit from a minimum capital requirement of 22%, compared to 39% for listed shares, and 39% for unlisted securities.

⁶² According to the European Insurance and Occupational Pensions Authority (EIOPA) (August 2020 impact study), only 2.38% of equities in European insurers’ balance sheets are eligible for inclusion in this new asset class.

⁶³ The public deficit, which was 3.1% in 2019, increased to 9.3% of GDP in 2020 (€211.5 billion).

price signals are important to direct financing towards long-term investments⁶⁴, other criteria are now factored into the investment decision. This change is not one of fashion, it is strategic. It is an opportunity for long-term investment. Indeed, long-term investments are made with a view to sustainability and are therefore the most likely to stimulate sustainable growth in a robust manner. Yet, it is precisely these investments that make sense for economic players.

B. Preserve and grow government's ability to promote long-term investment

To address the challenge of long-term investment today, government intervention is more than ever required. The market cannot do everything. Today, a significant part of the risk is borne by government in the broad sense, whether through its own investment policy or that of public institutions, via the guarantees it offers on certain products (regulated savings, state-guaranteed loans, etc.) and thanks to the various incentive plans it puts in place to invest in strategic sectors ("Investing for the Future" programmes, now *France Relance* or *France 2030*).

This intervention is essential, but it is not without limit. In a context of strong pressure on public finances, solutions must be found to ensure that this intervention remains possible and is the most effective for the long term.

1. Adapting the budget balance rules to the imperatives of long-term investment

In normal times, budgetary rules in the eurozone ensure a minimum level of coordination of Member States' policies in line with a common monetary policy. Nevertheless, in the face of the economic recession caused by the Covid crisis, the European Council activated for the first time, in March 2020, the general exemption clause provided for in the Stability and Growth Pact, in order to allow Member States the possibility of adopting emergency measures with major budgetary consequences.

However, in addition to the temporary easing provided by the Pact, the recent crisis raises the question of adapting the so-called "Maastrichtian" rules to the extent of the challenges facing the public authorities. That is why Europe has begun to reflect on the changes to be made to the budgetary rules, which are currently suspended. The objective is to adapt them to the new economic post-crisis realities, starting in 2023, the date announced for their re-establishment.

From a financial point of view, it is easier to reduce public debt when the gap between the economy's growth rate and interest rates is low. From this point of view, the special treatment allowed to long-term investments (as they generate long-term growth) within public spending is fully justified⁶⁵.

From an economic point of view, this easing seems essential in view of the amounts at stake. Compared to France, the investments needed for the ecological transition⁶⁶ are around 6% of GDP and more than 10% of public spending over the period 2021-2023.

The crisis has also highlighted the difficulties that governments have in mobilising the tools to plan for the future. Budgetary annuality, the basis of which is the democratic control of

⁶⁴ In this respect, an international agreement applying to the next ten years on the setting of the price of carbon would be the best incentive for green investment as it would allow investors to limit uncertainty about the returns of "green" assets.

⁶⁵ P. Aghion, A. Mhammedi (2021), "Fostering inclusive growth in Europe post-Covid", discussion paper.

⁶⁶ https://ec.europa.eu/info/sites/default/files/180131-sustainable-finance-final-report_en.pdf

Parliament, now appears to be a restriction that encourages governments to focus on the short term when planning for the future. There is therefore a gap between political discourse, which aims to give a long-term vision of society through political programmes, and concrete short-term economic measures based on an annual budget. This divergence of vision explains, in part at least, the democratic divide that has emerged in recent years. The strict application of the principle of budgetary annuality could therefore run counter to what makes it legitimate. It is worth noting that the “Investing for the Future” programmes (PIA) 1 and 2 and the military programming law offered frameworks that were much more suited to long-term actions, while PIA 3 saw the return of the budgetary annuality.

Proposal⁶⁷ 1

A revision of the so-called “Maastrichtian” rules would make it possible to isolate certain long-term public investments in public spending in order that they are not constrained by budget balance rules. Of course, the debt associated with these investments would benefit from the same rules.

The European taxonomy currently under discussion could serve as an instrument for identifying some of these investments.

Proposal 2

In France, five-year investment programming laws would have a binding value greater than the current programming laws.

2. Increase the economic ripple effect of public spending

In a context of relative scarcity of public resources, we must clearly favour public spending that has the greatest impact on long-term investment. This effectiveness of public investment is measured by the ripple effect created concerning other sources of funding. This dimension is too rarely highlighted in public policies at national level.

There are different ways to increase the ripple effect of public spending. This can be done either directly with dedicated investment funds or by favouring targeted guarantee instruments. The guarantee mechanisms have a significant leverage effect as they cover part of the potential losses of a loan portfolio, while mobilising additional financing. State guarantees sometimes appear to be dispersed while it would be possible to better target them on loan portfolios that are consistent with the sustainable development goals.

Another way to improve leverage is to rely on grant mechanisms. The European Union is developing more and more such programmes. They are referred to as “blending facility”. This is the principle of “blending” resources with co-financing programmes which combine grants, European funds, and direct financing from Member States and the private sector (equity, loans and/or guarantees and any other financial instrument). These mechanisms are particularly useful in the financing of infrastructure, particularly social infrastructure⁶⁸. They make certain risks acceptable while directing investments towards sectors identified as priorities. Besides, they often enter into a logic that creates meaningfulness in the investors’ eyes.

That said, the difficulties of absorbing massive funding in a short period of time should not be overlooked. There is a real risk of confusing speed and precipitation. Many projects have not

⁶⁷ Color coding of the proposals

Normative measures aimed at financial and non-financial players

Political incentives suggested by public players

Institutional innovations to bring change over time.

⁶⁸ Romano Prodi and Christian Sautter (2018), *op.cit.*

https://www.eltia.eu/images/Boosting_investment_in_Social_Infrastructure_in_Europe.pdf

reached a sufficient stage of development for financing; this leads to wasteful financing, whereas targeted support would have allowed for better upstream preparation. In addition, the financing of the transition of our economies also involves small projects at regional level. This highlights the importance of three factors that are too often overlooked: incentives, support and expertise. To respond to this, we must first put in place a coherent network of interlinked players. There is a logical chain that links the various players, i.e. government, long-term public investors, private intermediaries and private investors. The players' empowerment requires transparency and these investments being "meaningful" as perceived by the players.

Public spending is not the only way to create a ripple effect: tax relief or certain rules (for example, in terms of state aid) can also generate this effect. Through the EU taxonomy, as well as by identifying projects, government can also influence financing from both private and public players. The challenge is to obtain greater clarity on incentives of all kinds that the State can provide. The power of government discourse should not be overlooked. The government is well within its rights when setting out its vision for the long term, while ensuring a stable framework that fosters confidence and growth - key risk-taking elements.

Proposal 3

Prioritise public investment that generates substantial externalities through dedicated funds. Investment would be focused on social infrastructure, digital infrastructure and fundamental research.

Proposal 4

Target state-guarantee schemes on investments that generate the most positive externalities.

Proposal 5

Develop technical assistance for project owners to enable the creation of an identified pipeline of projects intended for the investment of savings.

Proposal 6

Direct public investments financed by private and non-state players through incentive schemes (for example, through EU taxonomy, tax incentives, etc.).

C. Allow financial intermediaries to transform savings into long-term investments

Structurally, financial intermediaries perform an intermediation function through their balance-sheet. They transform liabilities with little or no risk into assets that carry higher risk. Similarly, maturities are modified, transforming liquid or short-term liabilities into long-term assets. This transformation is made possible by appropriate management strategies and the existence of sufficient capital to cope with any materialisation of residual risks. As and when crises occur, the prudential requirements, which define the framework for managing risks and the level of capital needed to cope with those risks, have gradually been strengthened with the objective of increasing the resilience of market participants and the system as a whole. Note, however, that these requirements have had the effect of reducing the ability of intermediaries to take risks and have, in some cases, encouraged even more prudent behaviour than that expected, leading to "over-compliance".

A prudential framework is essential because it ensures the stability of the financing system and therefore the continuity of the functioning of the economy. However, some measures could be taken to better direct savings towards long-term investments while, at the same time, maintaining a secure framework.

1. Allow intermediaries to take on the risk they are able to bear

The solidity of intermediaries is essential for patient investment. The risk management system must therefore be based on an assessment of long-term risks and returns. However, for too long, regulators have taken into account only financial ratios, ignoring positive and negative externalities. Although some changes have been made, we believe there is still a long way to go for a proper assessment of the risks. Climate risk is beginning to be included in the assessment of risks, but the protection offered by a diversified, long-term portfolio should also be incorporated into the models. Similarly, the reference horizons of indicators are often short-term. Stress tests are not suitable for the long term and are designed for short-term horizons.

Among the tools that could be deployed, there is one that has bad press in Europe: securitisation. Although the cause of the 2008-2009 crisis⁶⁹, securitisation would help the financial intermediation system to function better. By buying loans recorded on banks' balance sheets and thus reducing those banks' default risk, securitisation enables banks to free up part of their balance sheet and thus accelerate the rotation of their equity.

It is clear that these mechanisms must be virtuous, that is, they must be accompanied by conditions and controls enabling the State to verify that the financing margins generated by these transactions are used for long-term investments. These loans do not necessarily have to be purchased directly by the State but can be purchased by public agencies as they exist in the United States with Freddie Mac and Fannie Mae⁷⁰. As these mechanisms automatically lead to a reduction in prudential constraints, it is important to ensure that the redeployment of capital obtained in this way is directed towards previously designated sectors and does not lead to the creation of speculative bubbles (particularly in the property market).

The new investments financed thanks to securitisation must be clearly defined in advance and help stimulate the economy by directing savings towards sustainable investment. Included in such an approach, "green securitisation" could be put in place to provide loans for the ecological and energy transitions.

Proposal 7

Treat long-term investments more favourably with stress tests adapted to long-term horizons.

Incorporate factors into prudential calculations to better take into account long-term risks/returns not reflected in past data. This could be achieved, depending on the terms to be clarified, through the introduction of a kind of climate bonus/penalty system

Proposal 8

Implement effective and transparent securitisation focused on long-term and sustainable investment, supported by specialised public institutions.

⁶⁹ In the United States, securitisation now exceeds the levels it had reached before the sub-prime crisis, whereas, in Europe, it is below pre-crisis levels.

⁷⁰ The relatively small size of US bank balance sheets can be explained in part by the existence of these quasi-public structures.

2. Allow intermediaries to offer suitable products

As household savings in Europe have reached a high level, it is important to design attractive products that finance long-term investment, while offering sufficient protection. In addition to differentiated risk/return characteristics, the products offered must also offer savers “meaningfulness”.

From this point of view, it is appropriate to consider **a range of products that are clearly differentiated depending on the level of risk households can accept**. The risk they can accept mainly depends on the households’ position in the life cycle and their level of wealth. Liquid products, but with a capped amount, can be transformed into long-term investments if the total amounts deposited are stable and the intermediary that holds those deposits is able to bear the risk of substantial transformation. In France, this efficient model is the basis for regulated savings accounts (“livrets d’épargne réglementée”). It could be made even more efficient by modifying some of the current constraints. The use of liquid funds invested in these instruments seems sometimes restricted by inappropriate rules (loans only at variable rates, limited to certain sectors and certain counterparties, with excessive public guarantee conditions, etc.).

Regulated savings accounts are just one of the many forms of savings in France. Life insurance accounts for just under 40% of financial savings in France. Here too, a less restrictive framework would make it possible to direct these savings towards more long-term investments.

Products adapted to savers’ needs and positive for the economy are quickly taken up. Bpifrance recently demonstrated this by successfully launching two funds, one for institutional investors and the other for individuals, “Lac d’Argent” and “Fonds Bpifrance Entreprises 1”⁷¹ respectively. These thematic and targeted funds met pent-up demand from clients with different profiles, but each of these funds allowed for the cash provided to be put to the best use.

The usual 10-year period currently observed for investment funds⁷² encourages management teams to favour investments with maturities of between 4 and 8 years, or even shorter. Indeed, with identical sales multiples, a quicker disposal substantially improves the internal rates of return published by the funds and thus the management team’s success indicators. This can then be used as a basis for the next fundraising. This type of practice, which has become almost entirely restrictive, often disqualifies industrial investments⁷³, which, in addition to their duration, now necessarily include major innovative developments (industry 4.0). On the other hand, these practices encourage investments in capital-efficient services or the financing of acquisitions leading to the concentration and creation of more attractive targets for players outside the territories, and ultimately facilitate the relocation of these activities.

We believe it is possible to propose alternative solutions to these funds. To counteract these trends and overcome these constraints, a specific fund category could be created, designed to channel liquidity to industrial investments of varying investment horizons, by exploring several avenues, and that could, for example, be invested for very long periods. Such funds could benefit from an exemption from some taxes for some income received in consideration of holding an investment in the fund for a defined period.

⁷¹ See above

⁷² It is a market practice, not a regulatory requirement.

⁷³ The installation of a factory requires 3-5 years to obtain the necessary authorisations and to deliver... it is difficult to realise an IRR quickly by financing such an investment!

Other initiatives would be meaningful at European level, particularly with regard to reinsurance. Indeed, the logic of reindustrialisation must also be conceived at the level of Europe. The ecological and energy transitions are long-term projects realised in the context of climate change, like other strategic policies requiring the use of substantial resources over the long term (such as the European defence policy or “breakthrough” research policy). Therefore, higher-risk long-term investments will involve significant insurance cover needs. The European recovery plan furthered financial solidarity between European states, through issuing debt at European level to finance the plan⁷⁴. Based on this success, it would seem possible to consider bonds that would be issued by eurozone countries to finance joint projects. This would protect eurozone countries from speculative attacks and pool the public debt thus created⁷⁵.

The Marguerite⁷⁶ funds, created in 2010 by the association of national public financial institutions (BGK, CDC, CDP, ICO and KfW) with the EIB and the European Commission, have shown that joint investments in an infrastructure fund can be profitable, useful and solid. Designed to finance different kinds of infrastructure, the Marguerite funds have financed more than 30 projects in 15 countries. The total value of the projects financed is more than €14 billion, a multiplier effect of 11.5 compared to the financing provided.

The growth and development of intermediaries must not prevent the emergence of new intermediaries, such as special purpose acquisition companies (SPACs). These companies are becoming increasingly successful and are growing in Europe and elsewhere. Without ignoring the fact that their functioning and ability to act on the real economy continue to be debated⁷⁷, the success achieved shows that they are responding to pent-up demand from investors. To adapt these companies in light of these fair criticisms, they should be remodelled, and their object well-defined. This would ensure that the amounts raised are indeed invested in key sectors. Thus, SPACs could be oriented towards sectors linked to innovation and sovereignty sectors (Green Transformation, Tech Sovereignty, Deep Tech Leadership, Innovation Cohesion, FinTech) and towards the financing of innovative companies. In exchange for investments effectively directed to these sectors as part of a long-term strategy with validated and published ESG criteria, some of these companies could benefit from support measures. This would help clean up this market by favouring those companies that meet these criteria.

Proposal 9

Remove certain constraints on regulated savings and the conditions for their use and offer higher returns in exchange.

Proposal 10

Put in place long-term savings vehicles, with exit options adapted to the situation of households according to their position in the life cycle and their level of wealth.

Proposal 11

Relaxing the constraints of life insurance and encouraging savers to take a little more risk.

⁷⁴ https://ec.europa.eu/info/strategy/eu-budget/eu-borrower-investor-relations_fr

⁷⁵ Their interest rate would correspond to an average of national rates of public bonds weighted by their economic weight.

⁷⁶ <https://www.marguerite.com>

⁷⁷ <https://seekingalpha.com/article/4397498-beware-spac-how-work-and-why-are-bad>

Proposal 12

Put in place an investment fund to finance companies involved in the reindustrialisation or the shortening of supply chains.

Proposal 13

Accelerate the growth of very long-term private equity funds accessible to as many people as possible.

Proposal 14

Put in place, at European level, a reinsurance fund to cover the risk of long-term industrial financing.

Proposal 15

Create Eurobonds to finance strategic European projects, for example in the field of energy.

Proposal 16

Put in place a tax and/or regulatory incentive for SPACs meeting long-term ESG investment criteria.

D. For a shared assessment of long-term risks and returns

In the context of limited financial resources, priority must be given to investments with the most positive externalities and least negative externalities. The limited understanding and the uncertainty that characterise the long-term should not prevent us from trying to evaluate these externalities as best as we can. This is essential because the challenge is to prioritise long-term investment according to our collective preferences. This last point again takes us back to the role of the State and government. Our last set of proposals will therefore focus on defining what allows an assessment of the long-term risks and returns that reflects our societal choices.

1. No proper assessment without reliable information

The provision of complete, understandable and comparable information is an essential prerequisite for a proper risk assessment. This principle, however, faces many practical difficulties. What appears to be contingent at a given moment becomes inescapable some time later. The stability of the assessment framework is essential to defining the risks, but an overly fixed framework will fail in its purpose. To address this dilemma, it is important to first move towards a more comprehensive assessment, covering more information fields. It is therefore necessary to include not only financial capital *but* also natural capital, its preservation (*environmental resources*) and human capital (*company stakeholders*). We must also agree on what is considered as important and what should not be concealed.

It is at the European level that are to be found the answers to the questions of what information to use - the **EU taxonomy** - on the one hand, and what must be made public - the draft **directive on sustainable development reporting for companies** - on the other.

We have already seen the importance of the taxonomy, which provides reliable information based on a common language. These common definitions help indicate to capital holders and to markets the sectors in which the investments which are prioritised by government action are , and which will therefore benefit from government support.

The Corporate Sustainability Reporting Directive (CSRD) has a complementary ambition. It will set up a body of rules that will establish “*sustainability reporting on an equal footing with*

financial reporting". This regulation could concern up to 50,000 European companies⁷⁸. The aim of this project is to ensure that the information provided by economic players is understandable, comparable and complete. It is about enabling companies to communicate "*the reliable and comparable information that investors and other stakeholders need*". On this basis, it will be possible to look at how sustainability and climate change are affected by business activities and to assess, in turn, how changes affect economic and financial models. This dual analysis, called "double materiality"⁷⁹, provides an overall understanding of the risks in a systemic analysis. Of course, this will require adjustment to the size of companies, with "proportionate" standards for SMEs⁸⁰.

Proposal 17

Make an example of state-owned companies in terms of extra-financial reporting.

Proposal 18

Support the implementation of reliable and demanding non-financial reporting. Develop training and support programmes for companies to implement the EU taxonomy and non-financial reporting.

2. Good information for everyone: from the saver to the most sophisticated players

The long term remains the poor relative of accounting standards. Current standards lead to herd behaviour and leave little room for long-term strategies. The valuation of assets is based on the concept of "fair value" which, in fact, increasingly resembles market value⁸¹. Quarterly reporting produces investor behaviour oriented towards the short term. IFRS 9, which was introduced in 2018⁸², further reinforced this trend. Volatility in valuations has increased and makes long-term strategies more difficult for financial players. Indeed, conceptually the future is theoretically taken into account by the valuation of assets continuously based on the concept of "fair value" or economic value and which, in fact, is similar to market value. However, this only makes sense if, and only if, the market is efficient and gives unbiased indications. However, this is not the case. The market remains what Keynes called a beauty contest and not a place that reveals the future, and therefore ill-suited for long-term investment management.

In this context, it is becoming more important than ever to have a suitable accounting framework for the long term. It can be compared to trying to measure the length of a motorway by using a ruler. This, in theory, gives a more accurate measurement, but, in reality, it is not useful because the risks of error are increased and the purpose of the investment is sometimes forgotten. The accounting system should therefore be allowed to give a better reflection of the effects of a long-term management strategy and thus avoid the impacts of the generalisation of measuring value in terms of market value. This would involve using alternative accounting measurement methods and, in particular, measurement adapted to long-term management,

⁷⁸ CSRD will extend the requirements of the current NFRD to many companies with more than 250 employees who were not subject to the NFRD, as well as to all listed companies.

⁷⁹ Simplifying the reporting process for companies is based on the interoperability of different standards so that standards are aligned with international initiatives while taking into account European specificities; EFRAG is responsible for working on this and formulating the corresponding technical advice.

⁸⁰ Unlisted SMEs could use them on a voluntary basis.

⁸¹ The use of "mark to market" as an expression of "fair value" - even though market prices reflect, at best, the opinion that investors have of their colleagues - leads to short-term fluctuations in value sometimes far from the projected reality.

⁸² This standard forces investors to value assets at "fair value", and thus assess the performance of those assets on the gains or losses from the first year, resulting in short-term oriented behaviour.

since such measurement can be based on better monitoring of cash as opposed to performing a valuation function.

By the same reasoning, accounting standards do not sufficiently reflect the benefits of portfolio diversification and focus too much on individual items. This restrictive view has the perverse effect of concentrating investments and penalising countercyclical players. The reporting framework would benefit from being significantly expanded to account for the whole picture.

Proposal 19

Establish accounting measurement methods adapted to long-term management.

Proposal 20

Use accounting and extra-financial reporting at an aggregate level and not structured around individual instruments.

3. Rank externalities

The quality of information is crucial for making informed investment choices, but it is not enough. In an environment that is resistant to modelling and in which there are multiple externalities, it is necessary to rank externalities in order to define priorities. It is for public authorities, which alone have the necessary legitimacy, to do this. This clarification of priorities is for the benefit of investors, particularly savers. Financial education is sometimes lacking, but most often it is the lack of clarity that makes products unattractive. There is currently no clear ranking of externalities, whether positive or negative. They are often presented one by one, without being placed in the overall picture. However, externalities do not know borders. For it to make sense, the clarification of political choices by establishing a ranking of externalities can only be done at European level. By establishing a place of arbitration, bringing together experts, political representatives and civil society representatives at European level, an analysis framework could be proposed to classify long-term investments. This framework could then be included as a governance instrument for European financial instruments. It could also serve as a basis for classifying long-term investments at national or European level.

Proposal 21

Set up, at European level, a body that defines and ranks externalities.

VI. Conclusion

Public authorities are responsible for establishing the framework - with the objectives and constraints that this entails - for economic actions. This is especially the case for long-term investment because it involves a distribution of risk between the various economic players. Defining credible and shared long-term objectives; setting intermediate targets and milestones; and putting in place incentives consistent with these objectives and these steps are the responsibility of government. These elements are crucial in dealing with the economic players' aversion to risk. This means restoring confidence by giving clear directions based on shared elements. Although obliged to take responsibility by investing in viable projects, public players have the responsibility of facilitating this risk-taking by including the externalities that are positive for society as a whole and for future generations. This distribution of roles requires that financial intermediaries have the means to assume the risks of transformation and allocation, in accordance with their fiduciary responsibility. By promoting a more balanced distribution of risks, we will provide the means to direct financing to the sectors where they are most needed, starting with the ecological and energy transitions. This means extending the decision-making horizons of all economic players.

Of course, there are no miracle measures that with a wave of a wand transform our financial systems into virtuous systems largely dedicated to long-term investment while ensuring that financing goes to where it is most needed. However, the current situation leads to financial resources not being allocated to where they are most needed and to inefficient investment of those resources. The lines of enquiry we propose show that solutions are available.

No one will fail to notice the increasing focus on sustainability in public debate. Preoccupation with the long term has markedly increased recently. The rise in climate risk as well as other types of risk such as health risks have contributed to this awareness. Another enterprise is born, another form of finance too. They must be more society-oriented and more responsible. A new regulation has yet to emerge and the transition period will be chaotic. But very soon resilience will be a central component in the measurement of performance.

Finally, we emphasise the fact that there can be no dynamic approach to investing for the long term without a positive mindset concerning the future. Although optimism cannot be decreed, political and economic leaders know that without shared confidence there is no success. This means there is a need for a community-oriented plan and strategy, and, as the community's leaders are responsible for such a plan and strategy, such plan and strategy constitute the basis of the social contract.

A long-term culture is not born overnight. When emergency measures too often take precedence over what is important, the challenge is complex: we must both repair the present and prepare for the future. But it is the duty – an absolute duty – we have regarding future generations.