Next Generation EU: Europe needs pan-European investment

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Projects need to fulfill certain conditions and should be reform- and investment-related, based on guidelines provided by the Commission. As such, projects should come as a complement to structural reform plans. Moreover, the scale of such investments is too large for national administrations to handle on their own. Not only do individual countries fail to internalise positive spillovers, but they also find it inherently complicated to work on projects with a high impact on sustainable growth (renewable energy, human capital, green mobility) that have broader spillovers and a strong ‘common good’ characteristic and for which national governments are ill-equipped.

The EU is in dire need of pan-European infrastructure projects, pan-European meaning involving two or more countries and yielding spillovers from which the entire EU can benefit. Examples are high-speed railways, power grids with sufficient capacity to transport the electricity generated by renewable energy, infrastructure for hydrogen (produced by renewable energy to replace carbon energy), digital investments, but also human capital investments in research and education. The bottom-up nature of this EU endeavour has a rationale: who else knows the needs of a specific country or region better than local administrators and technocrats? However, because of the bottom-up planning and submission of projects, these are unlikely to give sufficient weight to the EU-wide spillover effects inherent to large infrastructure projects which may therefore turn out underweighted.

The bottom-up planning needs to be complemented by a top-down approach: Europe needs a ‘circuit-maker’ to speed up the recovery once the pandemic is under control. Epidemiologists advocate the use of a ‘circuit-breaker’ lockdown to fight the pandemic. The economic policy response should become the ‘circuit-maker’ to speed up the recovery once the pandemic is under control.

Indeed, Next Generation EU is about more than supplementing demand in the short and medium run; it is the EU’s ‘Roosevelt moment’ (Codogno, 2020), aiming to not only compensate the near-term collapse in demand, but also promote a longer-term shift leading to a more robust and stronger EU economy.

This approach has a strong macroeconomic rationale. Yet, it is subject to a number of risks, common to most EU policy initiatives that rely on countries submitting their own plans (even when subject to coordination such as the European Semester), and of which some are acknowledged to have long plagued the effectiveness of EU projects:

- Countries have limited administrative absorbtion capacity of projects: past experience shows that money is left on the table, because countries are unable to initiate sufficient adequate proposals which, at any rate, may start with limited capacity constraints among private contractors or limited other visible obstacles.
- Countries are unable to submit their plans before the deadline, because of the top-down planning and submission of projects.
- Projects need to fulfill certain conditions and should be reform- and investment-related, based on guidelines provided by the Commission. As such, projects should come as a complement to structural reform plans.

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References

Figure 1: Next Generation EU: Estimate of overall amounts as a percentage of national GNI

Figure 2: Next Generation EU: Estimate of cash flows in billions of euros

Figure 3: Next Generation EU: EU-27 GNI indicator by country (in percentage of total GNI)