Next Generation EU: Europe needs pan-European investment

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Next Generation EU: Europe needs pan-European investment

Rael J. Beckers, Lorenzo Castiglioni, Paul van den Rand (29 November 2020)

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.

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:

1. The subsidiarity principle would argue for top-down rather than bottom-up in the case of large infrastructure projects.
2. Countries have limited administrative absorption 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 clash with capacity constraints among private contractors or crowd out other viable activities.
3. Countries could shun the take-up of conditional loans (Spain and Portugal have already hinted at that), preferring grants and market loans without strings attached. The latter are cheap even for the worst affected countries and increase of countries with limited fiscal space.
4. Countries may be tempted to channel EU funding to social transfers or tax cuts or to launch pet infrastructure projects that are not financially viable or have a purely domestic-political dimension. These should be left for countries to handle on their own.
5. 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 implementation, 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 Union 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 investments, to name a few.

Figure 2

Figure 3

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

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 Union can benefit. Examples are high-speed railways, power grids equipped 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 investments.