Next Generation EU: Europe needs pan-European investment

Beetsma, R.; Codogno, L.; van den Noord, P.

Publication date
2020

Document Version
Final published version

Citation for published version (APA):

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Next Generation EU: Europe needs pan-European investment

Rael Berentzen, Laurence Castiglioni, Paul van den Noord | 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.

The 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 none are acknowledged to have long-generated the effectiveness of EU policies.

1. The additionality of the plans may turn out limited as countries use EU funds to finance existing projects or projects that would have worked regardless. In most cases, public funding can at best only match the deadweight costs of projects which have already been budgeted for, preventing grants and market failure with strings attached. The loan share can never be zero and the shared risk cannot increase the scale of the operation.

2. Costs associated with national decision making and budgets, or not undertaken at all. This may clash with capacity constraints among private contractors or crowd out other viable activities.

3. The subsidiarity principle calls for such a pan-European initiative. The subsidiarity principle would argue for top-down rather than bottom-up in the case of large infrastructure projects.

4. 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 spill-overs, but they also find it inherently complicated to work together to bring about large-scale projects.

5. The bottom-up nature of this EU endeavor 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 nature of the local project may clash with capacity constraints among private contractors or crowd out other viable activities.

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, cross-border projects to facilitate the transit of goods and capital, and mobility.

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