Next Generation EU: Europe needs pan-European investment

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Next Generation EU: Europe needs pan-European investment

Roel Beetsma, Lorenzo Castiglione, Paul van den Noord
Published on 29 November 2020

Projects need to fulfil 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), or as a result of which countries are acknowledged to have long plagued the effectiveness of EU projects.

1. The additivity of the plans may turn out to limit the overall scope of EU funding to finance existing projects or projects that would have been undertaken anyway. In that case, support funding can at most limit the direct increase of social services and infrastructural needs.

2. The subsidiarity principle might argue for top-down rather than bottom-up in the case of large-scale infrastructure projects.

3. 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 national administrations to handle.

Moreover, if growth is such investments are too small in order to be efficiently handled by national administrations, the last thing we need is waste. Spreading funds too thinly over small projects without a common strategy could lead to resources being misallocated. With the widespread increase in debt-to-GDP ratios across European countries impinging on macroeconomic stability, the last thing we need is waste.

The EU in the end needs 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 and mobility.

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 and mobility.

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