A European Public Investment Outlook

Edited by Floriana Cerniglia and Francesco Saraceno

This outlook provides a focused assessment of the state of public capital in the major European countries and identifies areas where public investment could contribute more to stable and sustainable growth.

A European Public Investment Outlook brings together contributions from a range of international authors from diverse intellectual and professional backgrounds, providing a valuable resource for the policy-making community in Europe to feed their discussion on public investment. The volume both offers sector-specific advice and highlights larger areas which should be prioritized in the policy debate (from transport to social capital, R&D and the environment).

The Outlook is structured into two parts: the chapters of Part I respectively explore public investment trends in France, Germany, Italy, Spain and Europe as a whole, and illuminate how the legacy of the 2008 Global Financial Crisis is one of insufficient public investment. Part II investigates some areas into which resources could be channelled to reverse the recent trend and provide European economies with an adequate public capital stock.

The essays in this outlook collectively foster a broad approach to and definition of public investment, that is today more relevant than ever. Offering up a timely and clear case for the elimination of bias against investment in European fiscal rules, this outlook is a welcome contribution to the European debate, aimed both at policymakers and general readers.

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Introduction

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In a recent \textit{Financial Times} article Mario Draghi (2020) highlighted, in the midst of the coronavirus (COVID-19) outbreak, the challenges ahead for advanced economies, and for the European Union in particular. As we write (April 2020), the extent of the economic damage from the pandemic is yet unknown. Even in the best-case scenario of a fast recovery, the world economy will experience an economic slump that will be far worse than the one that followed the Global Financial Crisis of 2008.

Draghi’s \textit{Financial Times} piece brilliantly states something on what most, if not all, policy makers and economists today agree on, namely that, facing a crisis of this extent, all macroeconomic policy tools need to be mobilized. In particular, the titanic effort of central banks to keep firms and governments afloat through massive liquidity injections is only one leg of the effort to support the economy. The other leg needs to be fiscal support, that in most countries is, for the time being, taking the shape of short-term support to the productive system (temporary work schemes, loan guarantees) and to households’ incomes on the consumption side. In Europe this happens against the background of the suspension by the Commission of the Stability and Growth Pact (SGP), and of a somewhat softer interpretation of State Aid regulations. Governments’ efforts are unhampered by EU rules. The wager is that the joint operation of fiscal and monetary policy will succeed in preserving the vast majority of the productive structure and of incomes during the freeze associated to the lockdown, so as to facilitate a quick rebound as things go back to “normal”.

Now, the problem is that the new “normal” will not be as before. The legacy of the crisis will be a widespread increase of public debt, and a drop of both private and public investment, with most of the expenditure in the next few quarters focused on short-term support to the economy. Furthermore, the COVID crisis is triggering a healthy soul-searching process about our long-term development trajectory, questioning our way of life, our utilization of natural resources, and the very social and environmental sustainability of our economies.

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This Report goes to the heart of this question by attempting to give a state of the art of public capital and investment needs in European countries and focusing on several of what we believe to be key sectors. Because of high debt, resources will be scarce; and because of the need to rethink our economic model, investment needs will be massive. Therefore, a careful assessment of these needs becomes paramount. Most of the chapters that compose this Report were submitted in their final form in the days preceding the outbreak of the virus in Europe. But they all deal with the existential questions posed by the current situation; more importantly, they collectively foster a broad approach to public investment that goes beyond the purely accounting definition that dominated the debate on public investment in the recent past.

Dealing with the environmental transition; needing to redefine the scope and extent of public services such as health care; making sure that we have in place the resources (human and physical) to face global crises that in the future are likely to increase in frequency — in all these cases we will need to invest not only in material assets, but also in intangible ones such as Research and Development (R&D), territorial cohesion or social capital.

When the group of researchers gathered in this Report first met, one year ago, nobody would even remotely have imagined what the world economy is going through right now. But none of us doubted that the “old” accounting approach to physical capital was inadequate to fully grasp the role of the state in building the multifaceted capital that our complex economic system needs, to strive and to ensure social cohesion. One might notice with some bitterness that we needed a pandemic that ground to a halt the world economy, to make these very same issues a priority for policy makers around the world. We believe that this Report will contribute to the debate that will, hopefully, continue past the emergency phase.

In assessing the government role in building the stock of capital of the economy, we do not start from scratch. In fact, the renewed emphasis on the importance of fiscal policy as one of the tools for economic stabilization is the most visible outcome of the process of “rethinking macroeconomics” triggered by the 2008 Global Financial Crisis. The New Keynesian theoretical consensus that emerged in the mid-1980s from the turbulence of the 1970s had abandoned the “Old Keynesian” focus on the stabilizing role of the State. Instead, emphasis was placed on the importance of market adjustment in absorbing shocks, and therefore on the fact that predictability and credibility of economic policy were its most important contributions to growth: by following monetary and fiscal rules, governments would anchor the expectations of efficient markets, and enhance their capacity to stabilize shocks. For the same reason, monetary policy was the preferred tool of the consensus. Lags and biases seemed inevitably linked to fiscal policy and that made it a source of uncertainty for markets.

The Global Financial Crisis has come to shake this consensus. In 2008, faced with the severity of the crisis, monetary policy was not able to sustain aggregate demand. Liquidity injections were pivotal in stabilizing the financial sector and in cleaning up
the balance sheets of private (financial and nonfinancial) corporations of bad loans. But the infinite appetite for liquidity and the excess savings of the private sector, typical of balance sheet recessions, made it clear that monetary policy was pushing on a string, and fiscal stimulus packages in the Old Keynesian tradition had to follow to restart the engine of the economy.

The hasty reversal of the fiscal stance, beginning in 2010, left the recovery without momentum in the United States; more significantly, it caused a second recession in the euro area. Monetary policy was left alone to struggle with the tendency of the economy towards secular stagnation. The flattening of the Phillips curve and the “missing inflation” following the gigantic liquidity injections on both sides of the Atlantic (not to mention the permanent quasi-deflation of Japan), led policy makers and academics to reassess the merits of fiscal policy as the primary tool to push the economy away from the liquidity trap and (more importantly) from the tendency towards secular stagnation.

The debate on the size of fiscal multipliers started by the mea culpa of the International Monetary Fund (IMF) on the impact of austerity (Blanchard and Leigh 2013), initially focused on short run countercyclical impact of fiscal policy at large. Jordà and Taylor (2016) recently confirmed in a more systematic framework Blanchard and Leigh’s conclusions, pointing at estimation errors in previous works. Once corrected these errors multipliers estimates tend to be much larger than was previously found, particularly in the event of a crisis. The meta-analyses of Sebastian Gechert and Henner Will (2012) and Gechert (2015) manage to extract from the abundant literature a number of broad conclusions: First, taking the average of the many studies they analyse, public expenditure multipliers are close to 1; this value is significantly larger than the 0.5 value that was taken as a basis of fiscal consolidation programs in crisis euro area countries; it had therefore to be expected that austerity triggered a second recession in Europe in 2012–2013. Second, consistently with the standard Keynesian argument, the spending multipliers are larger than tax and transfer multipliers. Nevertheless, these average values hide a very strong variability; this is not really surprising, as the value of the multiplier crucially depends on a number of factors such as the degree of openness of the economy and the distance of the economy from the natural equilibrium, known as the “output gap” (Berg 2015; Creel et al. 2011; Glocker et al. 2017).

Within the broader reassessment of fiscal policy, attention — especially that of policy makers — quickly switched to public investment. The Juncker Plan, while criticized in many respects, and probably closer to a Public Private Partnership (PPP) program than to a standard public infrastructure push, was an important symbolic act in that it officially brought back fiscal policy, and most notably investment, to the centre of the policy arena.

Since the seminal work of David Aschauer (1989) the role of public investment has been assessed both as a short-term aggregate demand support, and as a production factor that contributes to long-run productivity and potential growth. And yet, it is
in fact in a downwards trend since the early 1980s across advanced countries (IMF 2014, and chapter 1 below). This trend, which can be thought of as a Kuznets cycle, accelerated with the financial crisis, as most countries tried to curb deficits and debt mainly through cuts in public investment, politically less sensitive than other items of public expenditure such as, for example, wages or entitlements. Figure 1 shows that the bias against public investment dates from the 1980s at least, and accelerated in the last decade (for further details see European Fiscal Board 2019, p. 74).

![Fig. 1 Government Fixed Capital Formation as % of Primary Current Expenditure. Source of data: OECD Economic Outlook. Figure created by the authors.](image)

At times of persistently weak and fragile growth, and with interest rates at record low levels, the advantages of stimulus through public investment are even more evident: on one side, borrowing costs are low; on the other side, the depletion of public and private capital stocks during the crisis make investment particularly productive, and the multiplier large. This is why, based on a large sample of developing and advanced countries, the IMF recently made the headlines beyond the academic and policy-making community by speaking of “free lunch”: public investment today is cheap and, boosting growth and fiscal revenues, it could pay for itself and ultimately reduce public debt (IMF 2014). Recent studies (e.g. Izquierdo et al. 2019) further show that this multiplier is higher when income per capita is low; in the European context this implies that investment would be particularly productive in the relatively poorer countries of the periphery.

The estimation of public investment multipliers crucially depends on two variables: the first is the productivity of public capital. This is a particularly difficult variable to
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assess, as measuring the public capital itself is rather complicated (see, e.g. Kamps 2006, and chapter 2 below). The second relevant variable is the time it takes for capital to evolve into productive capacity. Once the productive capacity is operational, public investment will influence productivity and supply. How this affects short-term multipliers, however, is more ambiguous, because the reaction of monetary policy and of private expenditure to an increase of public expenditure may be different depending on whether the latter is current or capital expenditure. For example, the central bank, can be less aggressive against current inflation, anticipating future deflationary impact of new productive capacity. The short-term investment multiplier therefore could also be larger than the multiplier of current expenditure.

The meta-analysis of Pedro Bom and Jenny Ligthart (2014) reports elasticities of private production to public capital. This elasticity is used in standard models to determine the multiplier of public investment; they exhibit the same degree of variability as the broader multiplier estimates. Consistent with this intuition, the multiplier (even the short-term one) increases in size when public capital is more productive, and when time to build is shorter (so that future increases in productivity are nearer in time). In these cases, the positive purely Keynesian short-term demand shock, is quickly associated with the positive supply-side impact on productivity.

The main takeaway of Bom and Ligthart’s meta-analysis (confirmed by Gechert 2015) is that the multiplier associated with public investment is larger than the overall expenditure multiplier. This is particularly true in times of crisis (or when there is a tendency towards secular stagnation), when the economy is at the Zero Lower Bound.

The research on the impact of public investment triggered by the global financial crisis resonates with its recent surge in the public discourse. The centrality of public investment in addressing the issue of climate change, the debate on how to amend European fiscal rules so that governments have more incentives to adopt long-term strategies, the definition of public investment itself (is expenditure on human capital, for example in education or health care, less important than physical investment in ensuring long-term growth?): these are all questions of paramount importance, made yet more urgent by the events of recent weeks. Who would deny today that preparedness against pandemics is a crucial asset to protect not only lives but also the economy? An asset for which the current level of underinvestment is blatantly clear to the public! These are issues that will shape European policies (and politics) in the years to come. These are the reasons why we believe that our European Public Investment Outlook could constitute an important value added to the European debate. With this outlook — the first in a series of outlooks — we want to provide both an assessment of the state of public capital in (and of the needs of) the major European countries, and to identify areas where public investment could contribute more to a stable and sustainable growth. The scope of the outlook is not to advance the academic debate (although all the chapters present original material and data), but to provide a tool for the policy-making community in Europe to structure its discussion on the very notion
of public investment. The *Outlook* does not want to be exhaustive either, as we selected some items (from transport to social capital, R&D and the environment) that we believe should constitute a priority in the policy debate. Other items are emerging in this very moment (such as specific investment in health care and biomedical research) that will certainly be treated in the next edition of the Report. It is worth stressing once more that our choice to broaden the definition of public investment beyond traditional measures is vindicated by the events of these weeks, and this makes the Report more relevant than ever in the current situation.

The *Outlook* is organized in two main parts. The first part sets the stage, providing trends on public investment in France, Germany, Italy and Spain. It is preceded by an initial chapter by Rocco Luigi Bubbico, Philipp-Bastian Brutscher and Debora Revoltella from the European Investment Bank (EIB) outlining the experience of Europe as a whole. The picture is as follows: between 2008 and 2016 public investment in the EU declined from 3.4% of GDP to 2.7%. Despite a slight rebound in 2017 and 2018, public investment still stands at only 2.9% of GDP, 15% below its pre-crisis levels. Fiscal consolidation pressure was at the core of such decline in public investment especially in countries that experienced a strong pressure to tighten their budgets. The negative effect of fiscal consolidation was in many cases amplified by a re-prioritization of public outlays away from investment towards current expenditures. Infrastructure investment was disproportionately affected by the decline in public investment. EIB estimates show that overall infrastructure investment declined by about 25% between 2008 and 2016, with the government sector accounting for the lion’s share of this fall.

From a sectorial perspective, investment in transport and education infrastructure experienced the strongest decline. The chapter clearly documents that the fall in government infrastructure investment does not reflect a saturation effect, the annual infrastructure investment gap is estimated to be about €155 bn and that construction of new infrastructure seems to continue to produce large positive economic spillover effects. This chapter advises, as a policy lesson, sound project selection: preparation and implementation are the keys to reversing the negative trend in investment activities in the EU, besides overcoming funding constraints. Obviously, to ensure the efficient use of available funds, sound infrastructure governance is also a key factor.

In chapter 2, Mathieu Plane and Francesco Saraceno take up the case of France, where public investment has seen contrasting trends in recent decades. Although it was rather dynamic until the 2000s, a real inflection took place at the turn of 2010 when the government turned to austerity, and a large part of fiscal adjustment was achieved by reducing capital expenditure. Their chapter starts by looking at the evolution of general government net wealth from the late 1970s. While still positive, the consolidated net wealth is today at an all-time low. Indeed, after reaching a record level in 2007 (58.1% of GDP) it has lost 45 points of GDP in the space of eleven years. Plane and Saraceno then focus on the evolution of the stock of non-financial assets held by the general government. Most of this is non-produced (land), and it has fluctuated greatly because
of changes in prices. The stock of fixed assets, which represents the accumulation of public productive capital, has been much more stable, and it is owned mostly by local governments. The authors then focus on flows (investment), to conclude that, with the exception of intellectual property rights, all components of public investment are today at historic lows and it is “civil engineering works” that have experienced the greatest decline. For the last three years, public net investment was negative, meaning that France does not accumulate public capital anymore. In fact, since 2009 the increase of debt has not been used to finance new investment but mostly current expenditure. Finally, the chapter analyses, by means of a multi-sector macroeconomic model, the impact on growth in different macro sectors, of a permanent increase of public investment. Based on this analysis, the chapter concludes with an assessment of the public investment needs of the French economy, and, like other chapters of the Report, pleads for the introduction of a Golden Rule of public finances aimed at preserving capital expenditure.

Chapter 3, by Sebastian Dullien, Ekaterina Jürgens and Sebastian Watzka, reports on German debates about public investment. As with France, underinvestment by the public sector over the past two decades has led to a severe deterioration of the public capital stock. Moreover, demographic change, decarbonization and digitalization pose significant challenges for the German economy which imply additional public investment needs. A detailed sector-by-sector overview of investment requirements concludes that investment requirements add up to at least €450 bn over the next decade. Through a macroeconomic simulation, it is shown that a debt-financed increase of public expenditure of this magnitude would be compatible with keeping the debt-to-GDP-ratio below 60% and would have a positive impact on potential growth.

Chapter 4, by Floriana Cerniglia and Federica Rossi, addresses the case of Italy. They start from the premise that this country, over the last decade, has experienced the worst economic crisis, which has had a huge impact on the already weak public finance conditions. Italy had to implement extraordinary actions to contain and reduce its public debt. Public investments have been curtailed the most, with respect to other functional areas of expenditure. The chapter provides an overview of major trends in public capital expenditure, including local and national public companies, which in Italy are significant contributors to public investment. The chapter considers also the breakdown of public investment by levels of government. Since the reform of the Italian Constitution in 2001, the interactions between levels of government in Italy have become increasingly challenging. Coordination issues between the central government and sub-national governments in running current and capital expenditures as well as the financing of local expenditures (both current and capital) remain unsolved problems, which most obviously impact the time required to make an investment. Moreover, Italy’s regional divide remains large, and sadly, it continues to grow. The issue of having shares of public investments in North-Central Italy and the Mezzogiorno, that proportionally reflect the population in those areas,
In chapter 5, José Villaverde and Adolfo Maza discuss the case of Spain, which, like Italy, has experienced the most acute economic crisis since the end of the Second World War. Because of that, the country had to face some important constraints in its public finances and public investment experienced a severe blow after the outbreak of the crisis. Before the 2008 Global Financial Crisis — namely during the period 2000–2007 — Spain was the country that registered the second highest increase in public gross fixed capital formation among the five biggest European countries (France, Germany, Spain, Italy and the UK), a rate (6.8% per year) that was also much higher than that of the EU (2.3%) and the euro area (2.6%). However, over the next period, 2008–2013, the situation changed completely: public investment dropped on an annual basis at a rate close to 11%; thus, Spain suffered the most acute decline in public investment by far among the big five. It also emerges that public investment in Spain has been very volatile and pro-cyclical over time (with large increase periods during boom times and huge falls during recessions); investment in infrastructures always represents the main component of public investment. This implies a policy agenda towards a more anti-cyclical stance and a rebalancing of types of investments, for instance the necessity to increase the share devoted to information and communications technology (ICT).

A common theme that emerges from the first part is that in Europe, and specifically in its largest economies, the legacy of the Global Financial Crisis is one of insufficient public investment. The chapters were written before the COVID outbreak, and the reader can easily imagine how current events will make the need for public capital, broadly defined, even more stringent. The second part of the Report investigates some possible areas into which resources could be channelled to reverse the recent trend and provide the European economies with an adequate public capital stock. Recently, economic literature has not only focused its attentions on the growth of physical infrastructures, as such. Economic analysis has sought to analyse more carefully types of investments which are very favourable to economic growth (OECD 2015). For instance: public R&D research investments, social investments, public infrastructure targeted to support private spending and business investments that may take advantage of location, and investments that may be necessary to respond to global climate emergencies. Understanding the challenges and opportunities of these types of investment could lead to improved infrastructural policy in Europe. In this respect, it is strongly recommended to have an assessment also on types of investments in the EU Cohesion Policy, to date the main investment policy in EU. The second part of the Outlook offers some ideas for the policy debate on these themes.
Chapter 6, by Daniela Palma, Alberto Silvani and Alessandra Maria Stilo, analyses the role of research and innovation as key drivers of economic growth, and as an object of renewed concern in the European policy agenda. In this regard, however, special attention has been paid to the role played by public funding with respect to the now more than ever complex evolution of technological innovation and the need for the productive structure to be supported to continuously capture the potential of new technologies. Starting from a well-established ground of most recent analyses carried out on main R&D indicators by major institutional organizations, the authors present a work aimed at bringing out the nature of “system infrastructure” of European research activity, calling for the need to assess to what extent the resources dedicated to R&D and the relative spending modes are able to turn into an effective development lever, starting from the structural characteristics of the entire research and innovation system. They claim that, in order to overcome the existing differential between EU countries in research and innovation performances, rebalancing public funding, while orienting intervention towards common initiatives, is not enough. The implementation of a new course of public investment research policies should instead envisage a renewed orientation of the strategies consistent with the new course of missions/objectives formulated at the European level and, at the same time, point to a coordination with policies aimed at increasing the innovative potential of the economic system, in relation to the characteristics of the productive specialization of each country.

Anton Hemerijck, Mariana Mazzucato and Edoardo Reviglio, in chapter 7, offer an original perspective: the most competitive economies in the EU spend more on social policy and public services than the less successful ones. However, the twenty-first century knowledge economies are ageing societies and require European welfare states to focus as much — if not more — on ex-ante social investment capacitation than on ex-post social security compensation. The growing needs for social services will require new and updated social infrastructure. According to a report on social infrastructure in Europe coordinated by former President of the European Commission Romano Prodi in 2018, the minimal gap is estimated at €100–150 bn per annum and represents a total gap of over 1.5 tn in 2018–2030. Long-term, flexible and efficient investment in education, health and affordable housing is considered essential for the economic growth of the EU, the well-being of its people and a successful move towards upward convergence in the EU. But how do we finance the great new needs with such a pressure on public finances? The chapter suggests innovative financial solutions using institutional and community resources to lower to cost of funding of social infrastructure. One such solution is the creation of a large European Fund for Social Infrastructure, owned by State Investment Banks (SIBs) and institutional long-term investors, which would fund its operations by issuing a European Social Bond. In this endeavour, a central role must be played by the EIB and by State Investment Banks. The authors discuss the potential role of these “mission-oriented” SIBs in social innovation by changing their mission. They should not simply “compensate market
failures” but also become institutions that “shape the market” and become major providers of sustainable long-term and patient finance to deliver public value.

Paolo Costa, Hercules Haralambides and Roberto Roson, in chapter 8, look back at the genesis — in Europe — of the transnational transport infrastructure which has long coincided with the Ten-T network, developed — sometimes as a weak Keynesian stimulus — as a tool for strengthening the cohesiveness and economic efficiency of the internal market. Following the enlargement of the EU, Ten-T has been evolving from 1996 to 2013, and has been encouraging modal shifts from road and air to rail, inland navigation and short-sea shipping, in order to achieve higher environmental sustainability and combat climate change. However, during these notable efforts, little attention has been paid to the external dimension of European connectivity. Along with addressing a number of technical disruptions affecting transport and its infrastructure, the new wave of Ten-T revision — due by December 2023 — must depart from what has thus far been an introverted view of Europe as a single market (something that has often penalized European competitiveness) to an extroverted orientation of the Union as a key player in a global market. The growing economic centrality of Asia since China’s accession to the World Trade Organization (WTO); China’s strong interest in the Mediterranean Basin as the “super-hub” that connects four continents; and the eastward shift of the European economic barycentre: all of these developments indicate possible solutions for addressing the “geographical obsolescence” of the current Ten-T. In parallel, innovation-driven disruption of the worldwide maritime freight transport network and its infrastructure necessitates the streamlining of port nodes and rail networks around the world, in a way that at the same time addresses efficiently the current “technological obsolescence” of big parts of European infrastructure, predominantly of ports. The authors argue that new Ten-T network evolving into a Twn-T (Trans-Global) one ought to no longer be the product solely of European decisions: dovetailing Ten-T with China’s “Belt and Road Initiative — BRI” will not only be unavoidable but also, rather, a most welcome development.

The global climate emergency is the main concern of chapter 9, by D’Maris Coffman, Roberto Cardinale, Jing Meng and Zhifu Mi. Anthropogenic climate change is widely understood to be the greatest existential threat to human societies in the coming centuries. The Intergovernmental Panel on Climate Change (IPCC) was established in 1988 to coordinate a global response to the coming crisis. The IPCC’s publication of the Special Report on Global Warming of 1.5 °C (SR15) in October 2018 has helped to galvanize public opinion and has given rise to unprecedented climate activism. State actors now recognise a need for immediate action. Broadly speaking, possible responses to climate change fall into three categories: mitigation, adaptation and remediation. Mitigation means measures to reduce carbon and methane emissions or to enhance carbon sinks; adaptation means measures that ameliorate the effects of climate change on human populations; and remediation means intentional measures to counteract
the effects of greenhouse gas (GHG) emissions, including global warming and ocean acidification. There are inevitable trade-offs between the costs of mitigation and those of adaptation over decadal time horizons. Nevertheless, with all three responses, large-scale infrastructure investment is required, with varying degrees of involvement by state actors, multilateral organizations, other non-governmental organizations (including religious groups) and, most significantly, private capital markets. In the current climate, multilateral development banks (MDBs) have taken a leading role. The EIB particularly is in the process of rebranding itself as a Climate Bank for Europe following Emmanuel Macron’s call. The authors then explore the investment opportunities that arise as a result of the growing urgency of the low carbon transition.

As mentioned, the Cohesion Policy is the EU’s main investment policy and — in the wake of the 2008 Global Financial Crisis — the European Regional Development Fund and the Cohesion Fund became the major sources of finance for investment in many countries. Francesco Prota, Gianfranco Viesti and Mauro Bux, in chapter 10, review how this policy has evolved over time in terms of financial size and geographical coverage. Firstly, in the programming period 2000–2006, the centre of gravity in Structural Funds allocation shifted from the Southern regions too the Eastern regions of Europe. What is interesting is that, looking at the expenditure composition by types, ‘transport infrastructure’ and ‘environmental infrastructure’ are the main expenditure items. The investments in transport infrastructure financed by the Cohesion Policy have changed the accessibility of EU regions. In particular, many regions in Eastern Europe have significantly benefitted from the Cohesion Policy financed transport infrastructure investments in terms of improved accessibility. Also, as result of the 2008 crisis, the Cohesion Policy has been the major source of finance for public investment for many Member States of the European Union. In 2015–2017 it represents around 14% of the total; this figure is larger than 50% in some small Central and Eastern European countries, in Portugal and Croatia; larger than 40% in Poland; larger than 30% in most of the other Central and Eastern European countries. In the EU-15, the figure is lower in most Member States (7% for Spain, 4.4% for Italy and 2.5% for Germany). However, it has reached 20% of total capital expenditures in Convergence regions in Spain, 15% in Italy and 10% in Germany.

The authors of the different chapters of this Outlook come from different countries, and from different intellectual and professional backgrounds. The diversity of the topics they tackle and of their approaches, nevertheless, does not prevent a strong message from emerging throughout the volume; a message that in the current health and economic crisis is more relevant than ever: Without an increased role for public investment, without a less myopic approach to costs and benefits of fiscal policy, without embedding a long-term horizon into the trade-offs that inevitably characterize public policy, none of the challenges facing European economies will be properly dealt with.

While the policy prescriptions of the Report are varied and sector-specific, many of the chapters share the idea that European fiscal rules should be revised to
eliminate the bias against investment. This is an idea that is now consensual even among European policy makers. We already cited the assessment by the European Fiscal Board (2019), highlighting the existence of the bias especially during the 2010–2015 fiscal consolidation phase. The same diagnosis motivates the consultation process recently (February 2020) launched by the Commission on the reform of the Stability and Growth Pact. While that consultation has been put on hold during the COVID emergency, it is likely that it will resume sometime in the future, and that the emergency itself will have pushed towards a rewriting of the rules with the aim of preserving public investment.

The old idea of a Golden Rule is now making headway again in policy circles; such a rule would allow debt financing of investment expenditure, requiring countries to balance current expenditure and revenues. In light of the discussions of the Report, the challenge would be to abandon a mere accounting approach, and to define investment in a functional way, so as to encompass all the sectors discussed here (Dervis and Saraceno 2014). But this is only part of the solution. The discussions on the 2021–2027 European Union budget stalled until very recently: held hostage by countries’ defence of their positions around decimals of a point of GDP. The COVID-19 crisis is reshuffling the cards: a substantial increase of the EU budget, together with a more pervasive role to be played by the EIB, is one of the options on the table to end the stalemate on debt mutualization.

It is a vaste programme indeed, that we face. The management of the emergency cannot be disentangled from a long-term rethinking of our growth model, of the role of the welfare state, of the best policies to preserve the social capital of the economy. As if this were not enough, in Europe this also forces us to ask the question of the appropriate institutions for macroeconomic governance. This Report provides a state of the art of these issues and starts by investigating some of the answers.

References


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3 To borrow the phrase used by General De Gaulle, which translates as “wide-ranging agenda”, in his famous response to a Minister who asserted that it was time for the government to start dealing with problems posed by idiots.


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