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# THE GREAT RESET

2021 European Public  
Investment Outlook



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Floriana Cerniglia, Francesco Saraceno, and Andrew Watt, *The Great Reset: 2021 European Public Investment Outlook*. Cambridge, UK: Open Book Publishers, 2021, <https://doi.org/10.11647/OBP.0280>

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Open Reports Series, vol. 10 | ISSN: 2399-6668 (Print); 2399-6676 (Online)

ISBN Paperback: 9781800643505

ISBN Hardback: 9781800643512

ISBN Digital (PDF): 9781800643529

ISBN Digital ebook (epub): 9781800643536

ISBN Digital ebook (azw3): 9781800643543

ISBN XML: 9781800643550

DOI: 10.11647/OBP.0280

Cover image: Photo by Sander Weeteling on Unsplash, [https://unsplash.com/photos/iGDg\\_f\\_mIW0](https://unsplash.com/photos/iGDg_f_mIW0)

Cover design: Anna Gatti.

# Preface

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This edition of the *European Public Investment Outlook* was written after the most dramatic moments of the COVID-19 pandemic but still during times of considerable uncertainty.

Still, European policymakers seem to have learnt the lessons of the mismanagement of the sovereign debt crisis: thus, the pandemic and its awful impact on European economy and society resulted in a strong momentum for the European Union in tackling the challenge of economic recovery through the adoption of, in some cases, unprecedented fiscal policies. These include the activation of the Stability and Growth Pact general escape clause, a temporary easing of the rules on state aid, and economic stimulus packages, which are financed through the issuance of long-term European sovereign debt securities.

For the first time the taboo of a significant creation of European sovereign debt seems to have been overcome, unveiling the strong appetite of global financial markets for investment in European sovereign safe assets.

The result—even if cast as a one-off step—marks an epochal turn from the “fiscal austerity plus national reforms” approach to a “European Public Capital spending plus national reforms” approach, embedded in the ambitious Next Generation EU programme. The issue of “Eurobonds” by the European Commission is also a crucial step for financing the investment of Next Generation EU.

For the first time, likewise, it was thus possible to verify the beneficial effects of a convergent synergy between fiscal policies and monetary policies, a synergy which was, for a long time, evoked and hoped for by many authoritative exponents of economic science, as well as by the former president of the ECB, Mario Draghi. In fact, the combined action of the European Commission’s expansionary fiscal policy and the European Central Bank’s accommodative monetary policy has strongly helped to contain the dramatic effects of the epidemic crisis on the economy and on employment, and has also, *inter alia*, contributed to avoiding tensions on national sovereign public debts, albeit whilst the latter were consistently increased by the measures adopted by all European governments in order to face the epidemic emergency, mitigate its impact on households and businesses, and support recovery.

A main difference with respect to the 2020 edition of this *Outlook* is that, in 2021, European Public Investment has gained a significant European element through the financing mechanism of the Recovery and Resilience Facility (RRF), associated with

the EU 2021–27 budget. With €672.5 bn, this is by far the biggest item in the Next Generation EU package, which totals €750 bn, 5.4% of 2019 European Union GDP. This macroeconomically significant and shared approach to public investment is an important innovation.

The format of the 2021 edition of the *Outlook* remains the same as in 2020. The *Outlook* goes to the heart of the subject of public investment, taking two complementary angles. The first is to identify public investment trends and needs in Europe and in selected countries, addressing the initiatives taken by European governments to tackle the COVID-19 related recession and to sustain and rebuild their economies. The second is the analysis of key domains where European public investment is needed to build a more sustainable Europe, such as transportation, climate change, digital transformation, social infrastructures, formation of human capital, etc. Both sections shed light on the impact that the Recovery and Resilience Facility is likely to have on overall public investment and thus on the overall macroeconomic structure of the European economy.

Taken together, the two parts show the value of public capital both within European countries and as a European public good. Public investment is a tool aimed at different goals: innovation, sustainable growth and high-quality employment, education, social cohesion across European regions and countries, and the fight against climate change. While there are some trade-offs between these objectives, they can largely be treated as complementary, with single projects achieving multiple goals.

Three welcome innovations are taking place within the EU as part of the Next Generation EU initiative:

1. for the first time in the history of the EU there is a massive, shared, and coordinated action at the European level to finance public investment and to boost EU economic growth, with no concerns about specific single-country fiscal constraints or deficit-spending limitations;
2. the choice and planning of investments are left to the political decisions of the individual member states, but the European Union seeks to orient these choices by linking them to a model of sustainable development based on social, gender, and intergenerational equity, environmental sustainability, and the systematic use of digital technologies;
3. with the aim of recovering Europe's strategic autonomy in global competition and of repositioning the continent on a path of long-lasting, balanced, and sustainable development, the disbursement of European financial resources is linked to the approval and implementation of important structural reforms, but for the first time the European constraint is associated with the allocation of the resources needed to finance the reforms and mitigate their short-term impacts; together, reforms and public investment could create the conditions for a boost of private investment.

A crucial issue remains, for the moment, unsolved: the new European policies to support public (and private) investment (and the related instruments) have so far been conceived as exceptional and temporary. How can they be made structural and permanent? This is the question underlying the debate on the Stability and Growth Pact reform and on ways to make the NGEU programme permanent, on the development of a common EU fiscal policy, and on the creation of a European Debt Agency. These are matters, perhaps, for the next *Outlook*.

This 2021 *Outlook* was coordinated by Floriana Cerniglia (Cranec), Francesco Saraceno (OFCE—Sciences Po), and Andrew Watt (IMK—Hans-Böckler Foundation) in a complex environment. The authors of the different chapters of the *Outlook*, from various institutional backgrounds, collaborated in an admirable way, enriching their perspectives from different countries. These “diversities” valuably contributed to the quality of the *Outlook* and made the message emerging from this volume even more significant.

*Franco Bassanini*

*Sebastian Dullien*

*Alberto Quadrio Curzio*

*Xavier Ragot*

