Investing in a greener Europe in a Time of great Turmoil*

by

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This *European Public Investment Outlook,* like its two precursors, is written in a time of great uncertainty and turmoil. Europe continues to grapple with the cascading after-effects of the COVID-19 pandemic, which now have been further aggravated by the war in Ukraine, the upheavals in the energy supply and price market, and the looming risk of starting a cycle of global stagflation.

European policymakers seem to have learnt the lessons of the mismanaged sovereign debt crisis and have tackled the challenge of economic recovery through the adoption of mostly unprecedented fiscal policies like the activation of the Stability and Growth Pact general escape clause, a temporary easing of the rules on state aid, the launch of a large investment plan financed with grants and loans funded through the issuance of European sovereign debt and economic stimulus packages. Now they must take a solid step forward and provide effective and sustainable responses to the challenges to Europe's security and strategic autonomy and to a potentially devastating energy crisis that has engulfed Europe. The national resilience and recovery plans must be used not only to achieve the original objectives set forth (recovery from the pandemic, social cohesion, structural reforms and investment in strategic sectors to enhance potential

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growth and to ensure a green and digital transition); but they must be used also – in our view - to ensure that the transition to a greener Europe and a faster achievement of energy independence (or at least a less energy dependence on supplies from politically unreliable countries) will not be at a cost too high to bear for Europe's economy and future.

To achieve the climate goals and steer EU economies towards a more sustainable path, significant economies of scale can be exploited. The EU budget provides a crucial contribution toward fighting climate change and reaching its climate objectives. With the 2014-2020 multiannual financial framework, the EU reached its goal of spending 20% (221 billion euros) of available funds on climate-related measures. For the 2021-2027 period, the target is to allocate 30% (557 billion euros) of the available resources provided by the EU budget and Next Generation EU to climate spending[1].

However, the plans and projections for reaching carbon neutrality and transitioning to a greener economy were drawn when Europe was under the illusion of having only peaceful neighbours and the energy sector was subject to what could be considered a normal historical cycle of market contractions and expansions. The recent uncontrolled flux in energy prices due to scarcity and volatility has provided a glimpse of what a transition to a low-carbon economy can become if not properly managed and how recurrent market crunches can hinder a decarbonisation trajectory. The current energy crisis has put the axis for greening Europe security-affordability-sustainability under unprecedented strain, putting at risk the EU economic recovery; moreover, they make it harder reaching environmental targets notwithstanding the significant budget allocations..

The 2022 European Public Investment Outlook (*Greening Europe*) has as its core the focus on the successful ecological transition of EU countries

[1] https://ec.europa.eu/info/strategy/eu-budget/performance-and-reporting/mainstreaming/climate-mainstreaming_en

to a greener Europe. Like the previous Outlooks, this work brings together research from European institutions, university departments and think tanks to explore related issues from a wide range of viewpoints and to continue building a network of economists and policymakers that share an interest in the topic of public investment. The format remains the same as the 2020 and 2021 Outlooks: part One identifies public investment trends and needs in Europe and in a select group of countries, addressing the initiatives taken to ensure a successful ecological transition. Part Two shines a spotlight on a series of specific topics related to energy and to green transition.

There are a few themes that emerge consistently through the different editions of the Outlook. The first is the need to protect public investment through an appropriate fiscal governance framework. The second is a broad definition of investment, encompassing tangible as well as intangible capital accumulation.

As a reminder to the reader, the 2020 Outlook (*A European Public Investment Outlook*) went to the very heart of public investment by focusing on intangible capital and the epochal turn away from the "fiscal austerity plus national reforms" to a "European Public Capital spending plus national reforms" approach, embedded in the ambitious Next Generation EU programme and the issuance of "Eurobonds" by the European Commission; the 2021 Outlook (*The Great Reset*) focused on post-pandemic recovery, the National Resilience and Recovery Plans and the new financing facilities.

The crucial issue discussed in the previous two Outlooks remains unsolved: despite a growing focus on sustainability objectives, international financial rules and the behaviour of global investors continue to penalize long-term investments in infrastructure and the ecological transition; the new European policies that support public (and private) investment (and the related instruments) are, for now, exceptional and temporary. Yet, the recurring tempestuous crises that have not only engulfed Europe but the entire world, demonstrate that some form of permanence should be grafted into them. If and how are still the underlying questions of the debates on how to make the NGEU programme permanent in order to face new emergencies and ensure the creation of essential European public goods, how to develop a common EU central fiscal capacity and a truly common energy policy, how to reform the Stability and Growth Pact, how to reach and maintain climate goals, how to support sustainable growth and European competitiveness in a scenario of global stagflation and in the face of central banks' drifting towards less accommodating, if not restrictive, monetary policies.

Greening Europe was coordinated by Floriana Cerniglia (Cranec – Università Cattolica) and Francesco Saraceno (OFCE―Sciences Po) in an increasingly complex environment. The authors of the different chapters come from various institutional backgrounds and have collaborated admirably, enriching the work with their unique perspectives. These “diversities” have contributed valuably to the quality of this Public Investment Outlook and made the message that has emerged even more substantial.

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