

Begg, Iain

**Article**

## One Instrument, Many Goals: Some Delicate Challenges Facing the EU's Recovery Fund

CESifo Forum

**Provided in Cooperation with:**

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

*Suggested Citation:* Begg, Iain (2021) : One Instrument, Many Goals: Some Delicate Challenges Facing the EU's Recovery Fund, CESifo Forum, ISSN 2190-717X, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 22, Iss. 01, pp. 09-13

This Version is available at:

<https://hdl.handle.net/10419/232380>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Iain Begg

## One Instrument, Many Goals: Some Delicate Challenges Facing the EU's Recovery Fund

There is no doubt: when the EU leaders agreed on the *Next Generation EU* (NGEU) recovery package, they broke new ground. It may not have been a Hamiltonian moment, mutualizing national debt in the way the United States did 230 years ago, but by allowing the EU level to borrow to fund public expenditure, a longstanding taboo has been shattered. The main instrument will be the Recovery and Resilience Facility (RRF), which can call on funds of up to €672.5 billion, of which up to €312.5 billion would be grants and up to €350 billion loans.

As explained on the Commission website,<sup>1</sup> “the aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.” To this end, all member states will be required to prepare national plans for using the RRF and each will have to allocate a minimum of 37% of the planned outlays to climate and 20% to “digital investments and reforms.” In addition, the plans should address other environmental goals.

These orientations, in turn, derive from the aims of the current European Commission to shift toward a new economic model, the “green deal” (von der Leyen 2019). As the title of a paper by Aiginger and Rodrik (2020, 190) signals, there is a “rebirth” of interest in industrial policy and a shift away from market liberalization to more explicit steering of the economy. They attribute this revival, in part, to strategic concerns about low growth in Europe and the emergence of China as a highly competitive rival. But they also find it to have been “further stimulated by disruptive technological change—from automatization to digitalization, industry 4.0, and the Internet of things.” Such considerations have influenced the focus of NGEU and other responses to Covid-19, in combination with the recognition of the difficulty of dealing with climate change and the threat to Europe falling behind in key technologies.

In parallel, a new term has entered the EU lexicon—strategic autonomy. It derives from concerns across a number of domains about dependence on others and a lack of influence on global affairs commensurate with the EU's economic weight. These concerns manifest themselves, notably, in vulnerabilities in the exercise of power by global rivals (Abels et al.

2020), and were given fresh momentum during the pandemic.

This paper assesses whether the sectoral priorities agreed for the NGEU can contribute to EU strategic autonomy and the implications for the underlying objectives of the policy. The next section looks at the aims of the RRF, then reviews how to interpret “strategic autonomy.” A discussion of the implementation of the RRF follows and concluding comments complete the paper.

### THE AIMS OF THE RECOVERY AND RESILIENCE FACILITY

The Commission wants the use of the RRF to contribute to realizing the goals of the 2021 *Annual Sustainable Growth Strategy* (European Commission 2020a): a green transition; the digital transition and productivity; fairness; and macroeconomic stability. Much of the growth strategy, in turn, is written around what the RRF is intended to achieve, emphasizing that while reflecting national situations, the Facility will be “an opportunity to create European flagships with tangible benefits for the economy and citizens across the EU.” Intriguingly, one phrase repeatedly used is “open strategic autonomy,” albeit without explaining what it means. It features five times in, successively, paragraphs on the broad aims of digital economy initiatives, the circular economy, twice more in relation to “digital,” then in a section on connectivity. In addition, strategic autonomy—without referring to “open”—is used, somewhat more eccentrically, in a paragraph on how the single market can be enhanced by investments, including cross-border ones.

Three immediate implications emerge from these orientations for the RRF. First, it is not a straightforward macroeconomic stimulus package, although it will—inevitably—have a marked Keynesian impact. Pisani-Ferry (2020a, 4) estimates that the net transfers to some of those projected to benefit most will “exceed by far the aid worth 2.6 percent of recipient's GDP that the United States granted to Europe under the Marshall Plan.” Overall, the Commission (2020a) claims it will boost GDP by 2% by 2024 and create 2 million jobs, although it will not start until 2021 and for many projects, will likely



Iain Begg

Iain Begg is a professor at the European Institute, LSE. He has recently completed a stint as co-director of the Dahrendorf Forum, a collaboration between LSE and the Hertie School (Berlin), looking at the Future of Europe.

<sup>1</sup> [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility\\_en#the-facility-and-nextgenerationeu](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en#the-facility-and-nextgenerationeu).

emerge well beyond that date, and it does not, by design, have the urgency of national stimulus measures. However, with a second wave of Covid-19 infections triggering a renewed downturn, the macroeconomic significance of NGEU may be greater than foreseen when it was agreed, given the planned timing of the fiscal impulse.

The second is that investments will have to be targeted to fit into the narratives constructed in partial justification of NGEU. Because the RRF will have to fit within the regulations for the European Structural and Investment Funds (ESIF), conditions will have to be met that are quite apart from the “rule of law” provisions behind the objections raised by Hungary and Poland regarding final ratification. The outcome of the December 10-11 2020 European Council meeting appears to have fudged the rule of law issue sufficiently to unblock the implementation of NGEU, but the other conditions—including the project’s viability and the quality of oversight to ensure the funds are spent properly—will still need to be fulfilled.

Third, the political attractiveness of “green,” in relation to sustainability, and “digital,” with its connotations of being about the new and growing industries and activities of the future is undeniable. But there is an open question about what it could mean in practice. In some member states, the answer could be mainly infrastructure; in others, services, enterprise promotion or investing in skills.

### WHAT IS, OR COULD BE, MEANT BY OPEN STRATEGIC AUTONOMY?

Strategic autonomy as a concept was given prominence in the European Global Strategy 2016,<sup>2</sup> together with the notion of “principled pragmatism.” The concept starts with a desire to be able to act independently of the global superpowers, but also implies the EU becoming such a power itself, translating into aims for increased “efforts in defense, cyber, counterterrorism, energy and strategic communications.” Motivations include disquiet about how the US has “weaponized” its pivotal position in the global financial system, alongside fears regarding China’s *Belt and Road Initiative* and the associated *digital silk road*. At issue is how Europe should seek to manage globalization.

At first glance, “open strategic autonomy” sounds like a contradiction in terms. It implies wanting to promote openness in trade, yet also wanting to promote or favor domestic producers—in this instance, those inside the EU—at the expense of foreigners. The Commission (2020b, 4) white paper “on leveling the playing field as regards foreign subsidies” explains that to “reap the full benefits of global trade, Europe will pursue a model of open strategic autonomy. This will mean shaping the new system of global economic

governance and developing mutually beneficial bilateral relations, while protecting ourselves from unfair and abusive practices.”

At issue is how subsidies or differing regulatory standards (unfairly) lead to competitive advantage for global rivals. There is nothing especially new in this concern, but what can also be discerned is a form of infant industry/strategic trade policy reasoning, hinted at in the proposals for a new industrial strategy (European Commission 2020c). Europe, as has been said many times, has been unable to nurture the dominant companies of the 21st century—e.g., Apple, Google, Facebook, Ali Baba, Samsung or Tencent—and risks entrenching a dependence on these global giants. Moreover, competitiveness is not always the only concern. The unease about the (predominantly American) digital giants stems, in part, from their control of data. Security considerations surfaced because of the success of Huawei as a provider of infrastructure associated with the rollout of 5G.

### EUROPE LAGGING BEHIND

The Commission’s analysis of how to shape Europe’s digital future rightly emphasizes the complexity of the challenges: “a Europe fit for the digital age is a complex puzzle with many interconnected pieces; as with any puzzle, the whole picture cannot be seen without putting all the pieces together” (European Commission 2020b). In relation to the digital economy, the evidence of the gap between Europe and the other digital powers is striking. In a league table compiled by Forbes,<sup>3</sup> the highest ranked European company by market value, at 19, is Deutsche Telekom, while four of the top five and eleven of the top twenty are US companies. Forbes explains the ranking as follows: “companies were scored on a variety of factors including sales, profits, assets growth and performance of the stock over the past year,” with the last component measured on a particular day. Ranked by sales alone, some other telecom companies, including Telefonica of Spain, would creep into the top twenty, but while telecom companies are manifestly part of the digital economy, their core business is often the networks and services, less so the leading-edge new technologies.

A similar exercise conducted by Thomson Reuters,<sup>4</sup> looking at the top one hundred tech companies, is also revealing about Europe’s relative position. Their methodology is more complex, using an algorithm based on 28 variables drawn from eight clusters, to position a company. Conventional financial performance and innovation variables are prominent, accounting for six and four of the indicators, respectively. However, the approach is distinctive

<sup>2</sup> [https://eeas.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf).

<sup>3</sup> <https://www.forbes.com/top-digital-companies/list/#tab:rank>.

<sup>4</sup> <https://www.thomsonreuters.com/content/dam/ewp-m/documents/thomsonreuters/en/pdf/reports/thomson-reuters-top-100-global-tech-leaders-report.pdf>.

in including less-common factors, such as social responsibility, environmental impact and resilience to geopolitical risks.

North American companies are still strongly represented, accounting for 47%, but Asia is catching up, at 38%, leaving Europe languishing at just 14%. Nor is Asia largely a story about China, as is implied by analyses focusing on China, the US and Europe as the three poles of global competition. On the contrary, Japan and Taiwan each have thirteen entries—just one fewer than the whole of Europe—in the Thomson Reuters table and India has five, but China and Korea have three each. Moreover, among the European companies listed, three are headquartered in France, two are Swiss-based, and Sweden and the UK have one each, but there are none from southern, eastern or central Europe.

All such league table are open to the criticism that they either give too much credence, on the one hand, to share prices (to which more attention is usually paid in the US than in the EU) or sales, or (as with the Thomson Reuters indicators), to measures reflecting a particular view of what constitutes success or the potential to succeed. Yet these data are hard to ignore when they show Europe in such a poor light. The inference to be drawn is that timely action on the slow but steady decline in European technological standing is increasingly needed.

The position of some of these large companies is, in part, attributable to the size of their domestic markets, especially the telecom providers, but many of them also have a truly global reach, with ramifications not only for market dominance, but also tax revenues accruing to national governments. The problem facing Europe is fragmentation of effort with the largest companies often focusing on their national markets. This means the diverse economies of scope or opportunities to benefit from network externalities are more limited (Abels et al. 2020): Europe, in short, is a union of separate markets more than a single market.

## SUPPLY CHAINS

An ostensibly different dimension of autonomy is reliance on supply chains susceptible to disruption. Action by China to lock down its economy in response to Covid-19 triggered a wave of concern in Europe (especially, but also elsewhere) about the extent of dependence on Chinese inputs. When the pandemic reached Europe later in the first quarter of, the fears intensified because so high a proportion of the likes of protective equipment and active ingredients for medications were imported from outside the EU, especially China. Although some domestic manufacturers were able to switch production to fill the gap, it took time and meant critical materials were unavailable at crucial times.

As demand for Covid-related products escalated worldwide, European leaders recognized the extent of

Table 1

The World's Twenty Largest "Digital" Economy Companies

Company	Country	Industry*
Apple	US	Computer hardware
Microsoft	US	Software & programming
Samsung Electronics	Korea	Semiconductors
Alphabet	US	Computer services
AT&T	US	Telecommunications services
Amazon	US	Internet & catalogue retail
Verizon Communications	US	Telecommunications services
China Mobile	Hong Kong	Telecommunications services
Walt Disney	US	Broadcasting & cable
Facebook	US	Computer services
Alibaba	China	Internet & catalogue retail
Intel	US	Semiconductors
Softbank	Japan	Telecommunications services
IBM	US	Computer services
Tencent Holdings	China	Computer services
Nippon Telegraph & Tel	Japan	Telecommunications services
Cisco Systems	US	Communications equipment
Oracle	US	Software & programming
Deutsche Telekom	Germany	Telecommunications services
Taiwan Semiconductor	Taiwan	Semiconductors

Note: The industry assignment is somewhat arbitrary when the company is involved in a range of activities, as many are. Source: Forbes.

their exposure, exacerbated by unseemly incidents where cargoes were allegedly diverted. For example, Berlin's Interior Minister, Andreas Geisel, accused the US of "modern piracy" and "Wild West methods" for intercepting a consignment of face masks in Bangkok, supposedly intended for the Berlin police.<sup>5</sup> Similarly, the president of the Île-de-France region, Valérie Pécresse, criticized US agents for bidding up the price for masks, calling it a "treasure hunt."<sup>6</sup> The lesson drawn was well-articulated by Emmanuel Macron in an interview on 23 April 2020 for *Le Figaro*,<sup>7</sup> highlighting concerns about protective equipment and other medical supplies. He said, "there are many sectors where we need to strengthen our strategic autonomy," adding that "we need to reorganize our supply chains to reduce our dependence on the rest of the world."

Leaders such as European Council President Charles Michel are at pains to reject the idea that strategic autonomy equates to protectionism. In a speech in Bruegel, he sought to spell out the difference: "economic security also means securing our supply of critical resources: medical products, rare earth elements [...] and also microprocessors, which are so essential for our digital sovereignty—this is another key aspect of our strategic autonomy, which is vital for our digital transformation."

## OWNERSHIP OF KEY COMPANIES

Some European countries, notably France, have consistently been wary of allowing foreign takeovers of

<sup>5</sup> <https://www.berlin.de/sen/inneres/presse/pressemitteilung-gen/2020/pressemitteilung.915948.php>

<sup>6</sup> <https://www.bbc.co.uk/news/world-52161995>.

<sup>7</sup> <https://video.lefigaro.fr/figaro/video/emmanuel-macron-renforcer-notre-autonomie-strategique/6151652923001/>.

companies. In pre-Covid days, this approach often drew criticism from partner countries and from the European Commission for undermining the principles of the single market. To some extent, the opposition to takeovers stems from differing approaches to capitalism. Thus, in Germany, the Nordic countries, Poland and some of the other countries of central and eastern Europe, a global outlook has contrasted with a more protectionist one in southern Europe. Yet in Germany, the expression “*Heuschrecke*” (locusts) was used by SPD politician Franz Müntefering to describe predatory hedge funds that took over a company merely to strip its assets and, as part of its response to the pandemic, the German government took steps to protect some of its companies from takeover as share prices plunged.

How to deal with this, at one level, is a challenge for competition policy. Hitherto, the thrust of EU policy has (largely) been to favor the creation of a regime assuring a “level playing field.” This was tested when a merger between Alstom and Siemens was proposed, but there is evidence of a growing willingness to consider the EU’s position in global markets as a criterion for enforcing rules. The encroachment of large Chinese companies, especially when perceived to have benefited from their country’s strategic industrial and export policies, is seen as such a threat.

The digital economy dimension of NGEU is, arguably, consistent with these concerns. The digital economy is significantly different from more traditional sectors, including the prevalence of economies of scope, and network externalities and borders are hard to define. Moreover, it is an innovation-driven sector, leading Crémer et al. (2019, 127) to call for systematic efforts to “integrate innovation in competition policy practice, and, in doing so, to consider that erring to the disadvantage of innovation is likely to be particularly costly in the longer run.”

### IMPLEMENTATION AND GOVERNANCE OF THE RRF

There is something of a *déjà vu* feel to the plans for the governance of the RRF. In the Lisbon strategy launched two decades ago, the much-quoted (and, subsequently, derided) line of transforming the EU into “the most competitive and dynamic knowledge-based economy in the world” by 2010 proved to be laden with hubris. A decade later, the Europe 2020 strategy sought to promote “smart, sustainable and inclusive growth.” Both strategies had grand ambitions to be transformative by establishing partnerships between the EU and national level. Headline targets were set, and, in Europe 2020, seven flagship initiatives were launched, ranging from a “digital agenda for Europe” to “an agenda for new skills and jobs.” National plans, subject to scrutiny by the Commission (laterally through the “European semester”), were required and member states were enjoined to incorporate “country-specific recommendations” (CSR).

Cohesion policy was recast to be charged with funding investment associated with the two strategies.

Although compliance with CSR can at best be described as patchy and the Europe 2020 “flagships” have had little obvious visibility in national policy-making, the plans for the RRF revisit these tools of governance. Thus, there will again be seven flagship initiatives encompassing infrastructure, provision of services, stimulation of new EU digital economy companies and re-skilling workers. National plans will be required, and the semester and CSR mechanisms will again be applied, with the Commission stipulating as an overarching principle that “proposed reforms and investment tackle one or more of the challenges outlined in the member state’s country-specific recommendations” (European Commission 2020c, 9). Union-wide goals are given prominence, with an insistence on national plans contributing to digital and green transitions. The RRF will operate alongside the cohesion policy and also function as an investment instrument.

One worry is the ability of many of the intended member state and regional recipients to generate additional projects able to meet the relevant criteria for exploiting the additional funds. There have been long delays, especially in countries expected to benefit most from the RRF, in using their existing allocations from the cohesion policy, and it should be noted that the EU’s “N+3” rule means spending from the 2014-20 budgetary cycle can continue up to the end of 2022. However, one advantage of the grants component of the RRF could arise from not having to find matching national funds. Even so, allocations risk being underused, as a result, low absorption rates “might represent a serious obstacle to the effective implementation of the NGEU” (Alcidi et al. 2020, 3).

In all of this, the vexing question of additionality will have to be confronted from two perspectives. On the one hand, if recipients see the new funding from the EU as an opportunity to cut domestically funded public investment, either to fund current spending or to lower taxes, the principle of additionality—EU funding adding to the domestic effort—would be undermined. Under ESIF, those receiving the largest allocations tend to use them to frame public investment strategies, but the very high proportion of the aggregate effort funded by “Brussels” suggests that the domestic contribution is often lacking.

Deadweight is the second perspective. If projects are highly likely to go ahead without public funding, the subsidy may not add to the stock of assets generated by private actors. This could mean the public support might be squandered. A counter-argument is that while a specific project might have gone ahead regardless, the provider (for example of modern digital infrastructure) may be able to improve quality or expand a project. Pervasive doubts about the public sector’s ability to pick winners are also germane to this issue.

## CONCLUSIONS

The EU has multiple objectives for NGEU, all laudable in their own right, but must be wary of expecting too much from a single—and time limited—policy initiative. The parallels between the RRF and cohesion policy are instructive. The latter, often portrayed by the Commission (for example, in the seventh Cohesion Report—European Commission 2017, xxii) as “the EU’s main investment policy,” has been called upon to support action to counter climate change, to promote competitiveness and, more generally, to be the key instrument for delivering the Europe 2020 strategy. All this is in addition to the treaty goal of reducing regional disparities, leading to a potential for confusion (Begg 2010) and the need to reconcile difficult trade-offs.

Jean Pisani-Ferry (2020b) calls the NGEU “a high-risk gamble. If the plan succeeds, it will surely pave the way to further initiatives, and perhaps ultimately to a fiscal union alongside the monetary union.” He goes on to warn that “if the plan fails to deliver on stated goals, if political interests prevail over economic necessity, federal aspirations will be dashed for a generation.” As with the cohesion policy, the EU also has to be alert to the trade-offs inherent in a mandate for the RRF covering several objectives and the risks of disappointing some interests in a context of rapid structural change in the economy (Landesmann 2020).

Europe faces difficult choices in its approach to “strategic autonomy” in the light of Covid-19. It will have to examine the trade-offs between undue dependence on others, especially China, and the gains from the international division of labor. The tensions are evident, whether in relation to access to vital health equipment and drugs, or ownership and control of major companies. This is about managing globalization, on the one hand, and strategic growth policies reflecting societal objectives, on the other. The expectations and imperatives for a “green deal” are clear and the Commission is surely correct to argue that “Europe must invest more in the strategic capacities that allow us to develop and use digital solutions” (European Commission 2020b).

There are reasons to end on an optimistic note. The Covid-19 crisis has pushed decision-makers to rethink economic models and to discard outdated norms. It remains to be seen whether the “green deal” espoused by Ursula von der Leyen’s Commission can genuinely be transformative or whether the narratives about digital Europe become action, but there can be little doubt the opportunity is there.

## REFERENCES

- Abels, C., H. K. Anheier, I. Begg and K. Featherstone (2020), “Enhancing Europe’s Global Power: A Scenario Exercise with Eight Proposals”, *Global Policy* 11, 128–142.
- Aiginger, K. and D. Rodrik (2020), “Rebirth of Industrial Policy and an Agenda for the Twentieth Century”, *Journal of Industry, Competition and Trade* 20, 189–207.
- Alcidi, C., D. Gros and F. Corti (2020), “Who Will Really Benefit from the Next Generation EU Funds?”, *CEPS Policy Insight 2020–25*, PI2020-25\_Next-Generation-EU\_funds.pdf.
- Begg, I. (2010), “Cohesion or Confusion: A Policy Searching for Objectives”, *Journal of European Integration* 32, 1–16.
- Crémer, J., Y. A. de Montjoye and H. Schweitzer (2019), *Competition policy for the Digital Era*, European Commission, <http://ec.europa.eu/competition/publications/reports/kd0419345enn.pdf>.
- European Commission (2017), *My Region, My Europe, Our Future: 7<sup>th</sup> Report on Economic, Social and Territorial Cohesion*, Publications Office of the European Union, Luxembourg.
- European Commission (2020a), *Commission Staff Working Document Guidance to Member States Recovery and Resilience Plans*, SWD(2020) 205, Brussels 17.09.2020, 3\_en\_document\_travail\_service\_part1\_v3\_en\_0.pdf.
- European Commission (2020b), *White Paper on Levelling the Playing Field as Regards Foreign Subsidies*, COM (2020) 253, Brussels, 17.06.2020, foreign\_subsidies\_white\_paper.pdf.
- European Commission (2020c), *Strategy on Shaping Europe’s Digital Future*, COM(2020) 67, Brussels, 19.02.2020, communication-shaping-europes-digital-future-feb2020\_en\_4.pdf.
- European Commission (2020d), *A New Industrial Strategy for Europe*, COM(2020) 102, Brussels, 10.03.2020, EUR-Lex - 52020DC0102 - EN - EUR-Lex.
- Landesmann, M. (2020), *Europäische Industriepolitik nach der Corona-Krise*, WISO-Direkt, <http://library.fes.de/pdf-files/wiso/17024.pdf>.
- Pisani-Ferry, J. (2020a), *European Union Recovery Funds: Strings Attached, But Not Tied Up in Knots*, Policy Contribution 2020/19, Bruegel, PC-19-2020-261020.pdf.
- Pisani-Ferry, J. (2020b), *Europe’s Recovery Gamble*, <https://www.bruegel.org/2020/09/europes-recovery-gamble/>.
- Von der Leyen, U. (2019), *A Union That Strives for More. My Agenda for Europe. Political Guidelines for the Next European Commission 2019–24*, [https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-nextcommission\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-nextcommission_en.pdf).