

In January **2018** the European Commission issued an interesting discussion paper by Lieve Fransen, Gino del Bufalo and Edoardo Reviglio, which reported the considerations made by the High-Level Task Force on Investing in Social Infrastructure in Europe, chaired by **Romano Prodi and Christian Sautter**. The report contains two key points that deserve discussion.

First, it claims that there has been a significant decline in investment in social infrastructure in Europe, exacerbated by the economic crisis, and which continues to languish in spite of rising needs, a trend that puts the fundamental European model of the welfare state at risk. Second, it calls for the increased involvement of private actors in the supply of social investment, with public policy supposed to remove obstacles and collaborate financially and logistically with private investors. The second point offers a credible solution to the first claim and should be carefully considered by those who want to preserve a socially sustainable development path in the European Union, a path that is often claimed to have become jeopardised by globalisation, rapid technological change and demographic patterns.

## Do we have a gap in investment in social infrastructure?

By “investment in social infrastructure” we mean investment in the kinds of long-term projects that produce returns over time, not only for private users but for surrounding communities as well (i.e. they generate externalities). This constitutes a sub-category of general infrastructure investment, which includes as its main sectors education, health and affordable housing, all of which suffered considerably during the crisis. **The diagnostic of the plan starts from the estimate of a gap of €142 billion per annum at a European level in investment in social infrastructure, which cumulated until 2030 would result in a €1.5 trillion gap.** This estimate is very offhand, as reported in the table below, which has been taken from the report. Basically, it assumes that current spending in terms of GDP in each of the fields considered is 25% short of the optimal supply. It then adds some items that are specific to some sectors (and yet assumes their magnitude to be around €50 billion per annum with few economic justifications).

| Sector | Current annual investment in % GDP | Current annual investment in bn€ p.a. | Mimimum estimated gap in bn€ p.a. | Additional items in bn€ | Annual investment gap in bn€ |
|--------|------------------------------------|---------------------------------------|-----------------------------------|-------------------------|------------------------------|
|--------|------------------------------------|---------------------------------------|-----------------------------------|-------------------------|------------------------------|

|                                 |       |     |    |     |
|---------------------------------|-------|-----|----|-----|
| Education and lifelong learning | 0.43% | 65  | 15 | 15  |
| Health and long-term care       | 0.50% | 75  | 20 | 50  |
| Affordable housing              | 0.40% | 28  | 7  | 50  |
| Total                           | 1.33% | 168 | 42 | 100 |

This kind of analysis clearly owes to a lack of data, and the authors try to support it through various specific within-sector considerations, which nonetheless all rely on further assumptions. **As an attempt to assess this at least in part on objective grounds, we propose some indirect evidence concerning demand and supply for investment in social infrastructure. The results are summarised in the table below.** With qualitative comparison, the presence of the gap between rising demand and languishing supply seems to be reasonable, but it may be smaller than estimated and it seems difficult to univocally establish its amount.

| Sector                    | Supply                                                                                                                   | Demand                                                                                                                                                                                                                                           |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Health</b>             | Both public and private spending in health increased by 20% as a %GDP, roughly since 2000 (Eurostat)                     | The population of EU countries increased slightly, but the share of population over 65 increased almost everywhere, and +30% in some countries (Germany) since 2000 (Eurostat)                                                                   |
| <b>Education</b>          | Education spending was roughly constant as a share of GDP, and decreased in some countries (notably in Italy) (Eurostat) | It is possible that demand for education has increased with technological change and higher returns to education, but education spending (private and public) as a % of GDP in comparable countries such as the USA was roughly constant (OECD). |
| <b>Affordable housing</b> | Public spending on affordable housing as a % of GDP decreased in major EU countries from 2000 (Eurostat)                 | Severe housing deprivation was a constant in major European countries, but fell in EU27 (Eurostat)                                                                                                                                               |

## Why is this so? Some ways forward

Not by chance, the lion's share in these sectors is represented by public investment: by definition, social infrastructure generally creates positive externalities, and it is, therefore, likely to be underfinanced if left to market initiative. **No wonder that at a time when European public debts have grown substantially over the decades, and public finances further deteriorated with the crisis, politicians reduced budgets for investment in social infrastructure.** This is not usually a good choice, as good social investment projects represent an opportunity for returns, especially during crises, different from government consumption and current expenditure. Nevertheless, it is understandable if the government requires deleveraging.

However, if opportunities in these sectors actually exist, there may be some low-hanging fruit to grasp in allowing capital other than public capital to reach these sectors. **The report encourages new forms of public-private partnerships for financing investment in social infrastructure, akin to what often happens with traditional infrastructure.** This means both mobilising resources from national and supranational institutions (for example, the report cites the EIB) but also seeking to spread awareness and provide incentives to private investors (in particular to institutional ones) in participating in social infrastructure projects.

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To these considerations, we add two suggestions. First, the field of social infrastructure is under-considered by investors in part because its returns are hard to evaluate, and the rewarding process is sometimes exposed to rent-seeking. **A relaunch of investment in social infrastructure involving private capital cannot succeed without including**

**serious investment in transparency, competition and *evidence-based policy-making*** (for example, when running impact evaluations). Big data and new technologies can make this effort easier and more effective. Second, we should not disregard situations in which the state does not invest at all, but subsidises producers, users or local communities who benefit from social infrastructure. Examples are the CPF (Compte Personnel de Formation) in France and the Community Investment Tax Relief in the UK. This approach has the benefit of leaving investment and consumption choices to investors, consumers and local communities, and probably minimising distortions.

To conclude, the report appears to be a first step, which shall not remain alone. Finding new means of supplying welfare and social services at a time when public institutions lack financial, political and human capital represents a key challenge for anybody who believes in an open, inclusive and prosperous Europe.

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