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The European Investor State: Its characteristics, genesis and effects

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Abstract

In the wake of financial, sovereign debt and health crises, public interventions in the European economy have taken on a new level of breadth, marking a reentry in force of the state in economic life that goes beyond the regulatory state. Yet, these interventions do not follow the old Keynesian interventions neither, being shaped through a particular logic of investment that link public and private actors in a particular configuration. The introduction to this special issue lays out this configuration for the case of the EU and its Member States through the concept of “European Investor state”. By this concept, we refer to the redefinition of the role of European states in the economy as an “investor”, in reference to private investment funds, which the state seeks both to imitate and to enroll. The paper embeds this redefinition of state intervention in the context of the 2010s in Europe, characterized by worries about “secular stagnation” and growing concern about an “investment gap”, interpreted as the failure of financial markets to invest in productive sectors, especially when risky. The budgetary constraints and the ideological outlook then shaped the specific financial and off-balanced sheet tools of the investor state. Finally, the paper explores the implications of the Covid-crisis on this intervention model. It concludes that despite major changes in fiscal policy at the EU level, this approach is likely to persist, because of the lasting interpretation in terms of “investment gap”, which only public-private collaborations are seen to be able to fill.

1. Introduction

Since at least the mid-2010s, there has been a significant resurgence of public investment in Europe. This resurgence has been facilitated through various EU-level investment programs, such as the Juncker Plan, as well as national programs like France's Programs for Investments in the Future (PIA 1-4). The overarching goal of these initiatives is to mobilize substantial funding to modernize the economy, stimulate job creation, and promote innovation. More recently, the Sustainable Europe Investment Plan (EU 2020) has outlined a strategy to mobilize a trillion Euros by 2030 to finance the decarbonization of the EU economy. This renewed commitment to public investment challenges the notion that the EU and its member states are best understood as a 'regulatory state' (Majone 1994), one that primarily focuses on creating a conducive institutional framework for markets to function efficiently. However, it also departs from the traditional Keynesian state, which relies on direct budgetary allocations to fund investments.

So, how can we make sense of this evolving form of state involvement in Europe's economic landscape? No longer "hidden" (author 2), these investment policies are now very much in the spotlight, with high levels of publicity at both the EU and national or regional levels. To comprehend this shift in economic policy, we must conceptualize the new and more prominent role of these investment programs, considering their political and economic implications for the state-market relationship and resource allocation. Furthermore, we must recognize the diffusion of these policies across various layers of government, from the European level down to the regional level, all actively participating in reshaping economic policy.

We propose the concept of the "European Investor State" to capture this transformation. While public authorities have always engaged in various forms of investment, the European Investor State redefines the state's role in the economy as an active investor, emulating and collaborating with private financial investors. This new role is justified by

concerns about the unbridled functioning of financial markets, which gained traction during the 2010s, and the identified "investment gap" within the EU. This interpretation in terms of "investment gap" initially stemmed from the Eurozone crisis and its aftermath (Juncker 2014). It claims the failure of financial markets to adequately finance high-risk investments in the real economy (EIF 2016).¹ Consequently, the state is seen as essential in guiding and channeling private funds towards these investments. To do so, public investment programs primarily rely on financial instruments and are often executed through public development banks and investment funds. They work in tandem with the private sector, employing risk-reduction techniques to incentivize private investors to finance projects that are expected to yield broad public benefits. In essence, the Investor State does not aim to replace private actors but rather to support and collaborate with them.

It's worth noting that similar public investment programs have also emerged in the United States, such as the Infrastructure Investment and Jobs Act (2021) and the Inflation Reduction Act (2022). However, we argue that Europe's approach to reinforcing state interventionism has its unique characteristics due to the influence of EU institutions. These institutions establish a macroeconomic framework rooted in historical political compromises among member states, favoring the use of financial instruments, which Braun et al. (2018) refer to as "governing through financial markets." Because of the multi-level character of the integration, this trend is visible at the various layers of governance, from the European to the regional level. These restrictions lead us to use the expression of "European investor state" that we conceive as a multi-level configuration of public investment activity, which comprises the EU level, its member states (Bickerton 2017) as well as the regional level.²

¹ This fact is couched in the language of « market failure ».

² This conceptualization also seeks to capture the possible tensions and frictions between these different levels (s. e.g. Ducastel et al, this issue, Volintiru and Nicola, this issue).

This special issue introduction details the contribution of the European Investor state concept to the growing literature on contemporary interventionism and outlines its main characteristics. It gives an account of its genesis but also assesses its relevance after the post-Covid response, characterized by a more traditional form of public budgetary interventions. The final section introduces the particular contributions by the authors in this Special Issue.

2. State of the Literature: Characterizing Contemporary State Interventionism

Since the Covid-19 crisis, the strengthening of state interventionism in the contemporary economy has become increasingly prominent. This trend is evident not only in journalistic commentaries but also in expert reports and political discourse. In the field of political economy, scholars have been pointing to this trend for several years, with particular attention to the role of the Great Financial Crisis in accelerating its evolution (Alami and Dixon, 2020; Warwick, 2013; Wade 2012). They have highlighted the proliferation and heightened prominence of entities such as sovereign wealth funds (Dixon, 2017), state-owned enterprises (Musacchio and Lazzarini, 2014), and public investment banks in the aftermath of the financial crisis (Mertens et al. 2021; Marois 2021).

Over the past decade, an active debate has emerged to characterize the specific form of contemporary state intervention in the European Union (EU). This special issue aims to contribute to this debate by introducing the concept of the "Investor State." It joins a list of concepts that have proliferated in an attempt to grasp the evolving role of the state in the economy and its relationship with the market. These concepts include the "catalytic state" (Prontera and Quitzow, 2022), the "entrepreneurial state" (Mazzucato, 2013), "state capitalism" (Alami and Dixon 2020), the "hidden investment state" (author 2, 2019), the revitalized concept of the "developmental state" (Block 2008, Singh, 2022; DiCarlo and Schmitz 2023, McNamara 2023), the "substitutive state" (Berry, 2022), the "corporate

welfare state" (Bulfone et al., 2022), and the "European derisking state" (Gabor 2023). These concepts vary in their focus on either the productive state capacities or the distributive consequences of contemporary state intervention. Yet only few engage in a genealogy of these new configurations with respect to the build-up of this form of state intervention (but s. author 2 2019) or its multi-level nature which involves the EU and member states and the actor-constellation driving it. This, we argue is preventing a deeper historical understanding of its potential longevity as well as its conjunctural vs structural features, which our conceptualization seeks to provide.³

Our concept shares with this literature several interpretations of recent changes regarding the nature of this new form of state intervention and the structural context in which it operates with the existing literature. Firstly, there is a common view that contemporary state intervention in the EU represents a departure from the regulatory state model, which primarily seeks to regulate market actors without direct intervention, but differs from the traditional positive Keynesian state characterized by direct intervention (Prontera and Quitzow, 2022). Instead, it is marked by collaboration and cooperation with private actors, following what Vivien Schmidt (2009) referred to as the "faire avec" (doing with) strategy, in contrast to the "faire" (doing - Keynesian state) and "faire faire" (making to do - regulatory state) strategies. Secondly, there is a consensus on the significance of financial actors and tools in this reconfiguration, which is deeply embedded in financialized capitalism and the structural constraints it imposes (Gabor, 2023). This new alliance with private finance through "de-risking strategies" is considered structurally necessary due to the challenges associated with using central bank financing for EU member states' public debt, the limited EU public budget, and the imposition of strict deficit and budget rules, along with the instability and crisis-prone nature of financial markets (ibid).

³ Gabor (2023) provides a structural account, focusing on the macrofinancial architecture of the EU in the present conjuncture, yet she fails to account for either the ideological worldview undergirding the new state interventionism and its evolution or the history of the tools by which it is implemented. This means she is unable to detect any change other than momentous macrofinancial change, whereas our approach allows for a more fine-grained analysis.

In comparison to this extensive literature, the European Investor State concept offers a unique perspective by emphasizing how this form of state intervention operates on multiple levels, collaboratively engaging public and private actors through financial instruments.⁴ Furthermore, it sheds light on how state and EU elites redefine the state's role in the economy. One distinctive aspect of the European Investor State concept is its attention to recent investment programs in the EU and the accompanying political discourses. However, this does not imply that we unquestionably accept political discourses that glorify state power and activism. On the contrary, our approach critically deconstructs these discourses. We demonstrate how this political redefinition of the state's role is rooted in political representations that embrace an economic and financial worldview. Additionally, some authors in the special issue (author 1; Ducastel et al.) explore the other aspect of this specific interventionism, based on the political glorification of "public investment." This entails the delegitimization of other forms of investment and the perpetuation of austerity policies in sectors not considered contributors to productive investment.

Because we base the European Investor state on deep institutional changes both in policy instruments and political representations of the role of the state, we argue that the "European Investor State" represents a structural change inaugurating a durable form of state interventionism. To understand its functioning, we investigate the policy instruments and tools it employs, as well as the notions of state and economy embedded within them (Lascombes and Le Galès 2007). By focusing on the actors (both public and private) and the tools they utilize, this approach underscores the deep intertwining of the Investor State with financial actors and tools, contributing to the financialization of public policies. It allows us to highlight the Investor State's aim to leverage private actors and redefine

⁴ This multi-level perspective allows to analyze interactions between public actors at the EU and the nation-state and local level, as much as their engagement with private actors. As an example, several financial instruments within the EU might be financed by public means from these different levels without any major implications of private actors in the process. These public actors however will act based on a financialized logic.

the boundaries of on- and off-balance sheet investments in the European Union. Additionally, it helps trace the financial circuits upon which the Investor State relies and discern the logics guiding these tools. As financial tools and actors exert influence on the state and central actors within these circuits, this methodology helps specify the unique form of the European Investor State, its effects, and its resilience.

3. "The European Investor State": Definition and Characteristics

The "European Investor State" is firmly placed within the process of the financialization of public policies (Chiapello 2017, 2020; Lagna 2016). It encompasses a dual perspective, as outlined by Eve Chiapello (2017, 2020): firstly, the "European Investor State" is a state that views and behaves itself as an investor, adopting the perspective of a private investor aiming to optimize future cash flows; secondly, it is a state that collaborates with and endeavors to enlist private investors.

The primary aspect of the European Investor State involves emulating and incorporating the rationale, reasoning style, practices, and habits of financial investors into the domain of public investment. Notably, the term "investment policies" is indicative of this adaptation. Public "investment" has long been a category in national accounting, technically defined as "Gross fixed capital formation" (GFCF). However, the recent trend to use "investment" as a distinct category of public policy does not refer anymore only to this accounting definition, but to an economic and financial definition of investment. It is a reflection of the inclination to "view the world through the lens of an investor" (Chiapello, 2019). In the era of financialization, investment policy no longer pertains solely to infrastructure spending; it encompasses a more abstract and comprehensive economic and financial logic—focusing on the promise of future gains generated by these investments.

While the pursuit of future national growth has always been the objective of economic and industrial policies, the distinction now lies in the fact that, as pointed out by Eve Chiapello, a measurable return on investment has become a necessary prerequisite for such policies. This means that productive activities, whether in the form of creating industrial activities, generating new employment opportunities, or fostering territorial development, are all subject to this imperative.

Theoretically, in accordance with the economists who advocate for public "investment" to stimulate long-term growth (Lucas, 1988; Barro, 1990; Romer, 1990), numerous policy sectors can be encompassed within contemporary investment policies. For instance, "human capital" is considered an essential investment in the context of the "knowledge economy." However, despite some minor programs dedicated to professional training (Hassel and Palier 2021), the investor state has almost exclusively invested in traditional industrial policy sectors, such as promoting innovative production processes, supporting new technologies, or bolstering energy production.⁵ Research support is included but as a catalyst for innovation, like in traditional industrial policies. Thus, it's important to note that while the investor state re-legitimizes public spending in specific policy areas, it remains compatible with austerity policies (Blyth 2013) in domains not defined as public investment (s. author 1, this issue). The political process by which the borders of what is deemed worthy investment are drawn constitutes in itself a research agenda.

In accordance with this financialized logic, the policy instruments favoured by the European Investor State are also often directly imported from finance. They include loans, guarantees, advances on revenues and equity. These instruments materialize in two complementary figures of the Investor state: the "public banker", using loans, guarantees, advances on revenues, and the "public fund/asset manager", using equity investments.

⁵ This does not mean that there are no public policies that aim to reinforce human capital (see for instance Hassel and Palier 2021), but these are not presented as part of the current investment policies and consequently of what we call the Investor State.

These tools explain the centrality of public investment banks for the European Investor State, becoming one of the main agents implementing these policy instruments. As new risk managers of such public investment programs, they become central in determining what can and what cannot be subject to public investment programs. One could object that the instruments related to the “public banker” are not new: for instance, loans were very common in the industrial policy of the post-Second World war era (s. Alayrac and Thyrdard this issue). However, this means overlooking important differences.

These differences reside first in their use in a specific configuration of actors and guiding logics outlined above. For example, the European Investor State still uses direct subsidies to encourage the instalment of renewable energy and energy saving devices (s. Ducastel et al. this issue). Yet, these subsidies have been transformed under the regime of the Investor state, being linked to “project-based” policy tools (Büttner and Leopold 2016) with short-term duration and a need to find co-financing in the context of the attribution of loans. Second, we see a growing displacement of instruments, such as subsidies with financial instruments in fields priorly dominated by the former, such as European structural and investment funds (s. Thyrdard 2022). The third difference is the importance given to their direct financial profitability. Indeed, return on (public) investment is not only thought of in terms of future national income; financial policy instruments are also designed to directly return the public money invested, or even to generate short-term additional public revenue.⁶

Perhaps the most remarkable aspect of this financialization of the state is the incorporation of financial asset management practices through public fund managers. This entails introducing shareholder value metrics to manage state-owned enterprises

⁶ Balancing some forms of financial viability while achieving specific goals of economic transformation and capital accumulation has been for long a tension at the heart of state ownership and public investment. But the Investor state logic tilts towards further short-term profitability, shying away from projects which are not able to be self-funding. In this vein, e.g. the European Investment Fund is bound to generate profits as part of its mandate, an issue which limits its promotional activities (Cooiman 2023).

(Wang, 2015; Coutant et al., 2021) and adopting the logic of institutional investors, aiming for diversified portfolios (Aglietta and Reébérioux 2004). This shift has significant implications for the time horizon of investments. While traditional state investment in enterprises was characterized by a long-term perspective, the Investor State may not necessarily commit to firms for extended periods. It operates as an active "fund manager," periodically reallocating investments within a portfolio and divesting when alternative, more profitable investment opportunities arise, as determined by public authorities.

The European Investor State doesn't merely emulate private investors; it actively seeks to engage them in investment projects, thereby supporting the private financial industry. It relies on specific policy principles and instruments, including "co-investing," which makes it an obligation in most public investment projects to secure a mix of private and public funding. This strategy aims to utilize limited public funds to attract ample private capital. Co-investing often takes the form of "leveraging" strategies, seeking to maximize private funds using relatively minimal public capital. Another principle involves "derisking" private investments (Gabor, 2021) through policy tools such as public-private partnerships (PPP), guarantees, or rules within policy devices, such as prioritizing private actors over public ones in mixed private and public loans.⁷

In summary, the European Investor State's ultimate objective is not to replace private financial actors but to encourage their participation in investment projects defined as public priorities. When the state behaves as an investor, it does so to address market failures—the only recognized inadequacy justifying public interventions, according to neoclassical economists (Kessler and Wilhelm 2013). It aims to undertake investments that market actors avoid due to high level of risks but which are considered vital for long-term economic development by public authorities. When co-investing with private financial

⁷ As noted by Chiapello (2017), in a broad perspective on the historical trajectory of the state, the Investor state corresponds in this sense to a new, market-oriented way to fund public policies and the state in general: by attracting private money on a voluntary basis and not, as it used to be, in a coercive manner, through taxes or the obligation to convert deposits in sovereign bonds.

actors, the Investor State's goal is to guide financial markets to fulfill their role as investors and take on these risks.

Similarly, regarding private industrial actors, the aim is to facilitate their initiative rather than substitute for it. The state defines general priorities (e.g., climate transition, biomedicine) and finances selected projects. However, the intermediate phases of product development are left to private industrial actors, with minimal intervention in their strategies. The assumption is that private industrial actors are more efficient at generating new ideas, technologies, and wealth sources. Public investment policy focuses on funding private actors to assist their development rather than replacing or directing them.

This approach sharply contrasts with both the Traditional Keynesian State (Hall 1986) and the "regulatory state" model (Majone 1994) in terms of the tools employed, the goals and predominant logic of state interventions, and the central actors responsible for implementing them. The following table provides a comparative overview of these three ideal-typical forms of economic intervention:

	Traditional Keynesian State	Regulatory State	European Investor State
Tools	Direct investment	Regulation	Financial instruments
Actors	Civil servants (internal capacity)	Independent Agencies	Public financial institutions (development banks and public funds), collaborating with private finance
Goals	Economic/social development through build-up of public infrastructure and services	Economic/Social Development through the creation of "Single Market"	Mobilizing private finance to achieve public goals, requiring guaranteed return on Investment (public derisking)
Predominant logic	Integrated logic of planning and directing investment	Market Forces, embedded in strong regulation are the means to achieve public policy	State formulates grand strategic goals, which are then implemented in a public-private partnership

Table 1: The three different ideal-typical forms of intervention in the economy*

* The three models, even if they correspond to given historical periods, are ideal-types that are not necessarily exclusive of each other and can be combined.

Whereas the Keynesian state used the public budget for direct investment into public infrastructure and the pursuit of industrial policy and the regulatory state abstained from such forms of investments, rather divesting from state ownership, the new European investor state becomes an intermittent holder of company shares, pursuing industrial policy and investment through financial instruments in a form of public-private partnership, which derisks private investments while seeking to guide them into particular

forms of investments. Whereas in the other forms of statehood, civil servants in the ministries of finance (Keynesian state) or in independent agencies (regulatory state) were central actors, in the European Investor State impulses often arise from public financial institutions, which negotiate the deployment of financial instruments jointly with ministries of finance and the responsible DG's in Brussels. These differences in modus operandi and central tools raise important allocative questions within the EU.

Polemically asked, does the investor state also provide benefits to European citizens or is it merely a corporate welfare state (Bulfone et al 2022)? If the investor state is not able to impose conditions on its funding, and hence becomes a mere source of cheap financing, the main beneficiaries are unequivocally the private industrial and financial companies. On the contrary, if the investor state proves effectively able to steer economic developments, we can expect its policies to benefit targeted groups as much as the private financial actors involved in the financing of these policies. In addition, how is this form of economic intervention articulating with the core-periphery structure of the European Union? Given the differentiated development of both financial markets and administrative capabilities within the EU (Bruszt et al 2022; author 2, 2022), we can expect variance both in the degree to which European states have become "Investor States" and the effects of the policies they pursue in terms of their actual implementation on the ground. How does the recent decade of austerity in EU member states affect the capacity to implement these policies, both on the national and the regional level? Answers to these questions are crucial to address the allocative issue raised by the emergence of the investor state.

Having established these crucial differences of these forms of state interventions and the political economy questions they invite, it is worth investigating how this form of state interventionism has emerged and developed in Europe over the course of the last 30 years. We now give some insights into this question (s. Alayrac and Thyraud, this issue, for a more extensive historical account).

4. The Emergence of the European Investor State

At any given time, one can identify a dominant form of state intervention in a national economy (Hall, 1986), which can be understood as an apparatus of elites, instruments, and logics that collectively shape the form and extent of these interventions (Hall, 1993). Simultaneously, different forms of state intervention coexist and interact, with dominant forms often overshadowing and potentially oppressing the less pronounced ones (Campbell and Pedersen, 2014), as agents within various branches of the state vie for dominance (Hall, 1993). Rather than viewing state elites as a unified actor, it is more accurate to conceptualize them as forming alliances and competing for influence.

The growth or demise of dominant forms of state intervention occurs as a result of a complex interplay between path-dependent structural factors and conjunctural factors. The alignment of existing elites and policy instruments with the demands of a specific conjunctural moment, as perceived by the policymaking community, becomes a central element in the often incremental changes to the form of state intervention. During these moments, policymakers seek to craft solutions based on existing institutional blueprints and by repurposing available institutional capabilities, gradually reshaping the policy apparatus and its functions (ibid). In the case of the European Investor State, such changes must consider the effects of European integration, which can be viewed as a form of state transformation (Bickerton, 2017).

By conceptualizing the shift in forms of economic state interventions in the EU, as depicted in Table 1 above, we can trace the historical path by which different elements of the European Investor State gained prominence, eventually replacing the regulatory state as the dominant form. What becomes evident from this perspective is that the separate elements characterizing the EIS are not entirely new; they often have a decades-long history (see Alayrac and Thyraud, this issue). The consolidation of these elements into a coherent apparatus of state intervention and its dominance can be attributed to structural characteristics of the EU that favored the rise of the "European consolidation state"

(Streeck, 2015) and its negative consequences on growth during the repeated crises from 2008 onwards. Fundamental elements of the investor state, such as the use of financial instruments by the European Union and others, existed in nucleus form as far back as the 1980s (see Alayrac and Thyrard, this issue).

These instruments gained prominence in the 1990s and 2000s, as the EU increasingly utilized financial instruments to stimulate private investment. This strategy was driven, in part, by budgetary constraints at both the EU and national levels, resulting from the Stability and Growth Pact established in 1999. In this context of heightened fiscal discipline, policy instruments such as loans, guarantees, and equity, along with the principle of leveraging, became increasingly important as they allowed for economic stimulus with minimal on-balance sheet budgetary implications (author 2, 2018, 2019; Endrejat; Piron, this issue). Loans, guarantees, and equity activities were also attractive because they could self-finance and generate returns for the state budget in the form of interests and dividends.

However, the increased use of financial instruments and the embrace of public-private partnerships were also influenced by ideological preferences for market-oriented policies within the Commission and by the new elites advancing this "investor state" configuration (McNamara, 1998; Warlouzet, 2018). During this period, public development banks, in particular, emerged as active proponents of these new financial instruments (author 2, 2019), building expertise and financial resources in the process. Policy approaches increasingly shifted from providing grants to offering loans and, subsequently, to developing more complex systems of risk-sharing between public and private actors. This shift was encouraged by public bankers advocating for these risk-sharing arrangements (Liebe and Howarth, 2020; Endrejat, this issue).

The 2008 financial crisis and the subsequent Euro-zone debt crisis acted as catalysts for the expansion of these tools in the public domain, coinciding with a legitimization of this form of public investment. In response to the crisis, Member states, including France,

launched investment programs and promoted state interventionism (see author 1, this issue). This expansion of state intervention was later curtailed by the shift toward austerity following the Greek debt crisis, which reinforced economic orthodoxy and led the European Commission to increase fiscal surveillance of member states (Farrell and Quiggin, 2017). In response, two sets of regulations and directives, known as the Six-Pack (2011) and the Two-Pack (2013), were adopted to strengthen the Stability and Growth Pact (SGP) (Schäfer & Streeck, 2013). Additionally, the intergovernmental Treaty on Stability, Coordination, and Governance (TSCG) included a "Fiscal Compact," which stipulated that national budgets should be almost balanced, with the structural deficit of member states not exceeding 0.5% of GDP in theory. These provisions severely constrained the scope for public counter-cyclical investment (Merand, 2021).

The European Investor State, as a form of state intervention, coalesced and gained dominance in response to the austerity measures imposed by these reinforced budgetary constraints (Streeck, 2015). By mandating the reduction of expenditure, particularly current expenditures characterized as "unproductive" (Lemoine, 2022, 230), the Eurozone economies experienced a 'double-dip recession' between 2010 and 2013, partially due to the reduction in public expenditures. In the mid-2010s, the poor economic performance of the Eurozone and concerns about "secular stagnation" led to a reconsideration of European budget rules and the role and legitimacy of fiscal policies. In this context, the President of the ECB, Mario Draghi, asserted that monetary policy alone could not address the issues, and member states should utilize their fiscal tools (Draghi, 2014). This viewpoint was shared by the incoming President of the Commission, Jean Claude Juncker, who adopted a more flexible interpretation and application of the Stability and Growth Pact, with a focus on promoting growth (Merand, 2021, p. 105).

Amid this economic downturn, the European Commission identified an "investment gap" in Europe, despite increased financial market liquidity resulting from quantitative easing (author 2, 2018). The concept of an "investment gap," extensively discussed by

international economic organizations such as the OECD and IMF (2014), provided a partial re-legitimization of public spending, particularly targeted at investment, which had controlled fiscal implications and did not jeopardize the overall goal of reducing the size of the public sector and social transfers. It allowed for the reconciliation of fiscal policy with the consolidation state framework (see author 1, this issue). This diagnosis, in combination with the persistent focus on fiscal consolidation within the EU, driven by a coalition of European Commissioners and member states known as the Hanseatic League (Merand, 2021, p. 106), laid the foundation for the imperative to "do more with less" (EIB, 2020, 1), achieved through leveraging public funds with private capital.

As a form of economic interventionism born from these conflicting impulses, the practice of enlisting private actors to stimulate investment in the "real economy" was adapted and aligned with European competition and fiscal rules (author 2, 2018; author 2, 2021). This approach was epitomized by the Juncker plan (EFSI), initiated in 2015, which aimed to leverage limited public resources (32 billion Euros) to stimulate a total investment of 500 billion Euros. Given the constraints on budgetary resources, this technique of leveraging public funds through securitization and other forms of risk-sharing enabled the EU Commission to take action. For the EIB and national development banks, it led to an increase in balance sheet size, personnel, and capabilities, with staff numbers at EIB increasing by over 50% (author 2, 2021). The Juncker plan marked a significant turning point in the establishment of the European Investor State, and its successful implementation and extension until 2020 further legitimized economic interventionism and industrial policy, bringing the Investor State into the forefront of public policy.

Beyond macroeconomic considerations, this process was also fueled by escalating geopolitical competition with China and the US. European policymakers increasingly viewed the economic interventionism of these global powers as a threat. This perception gave rise to new forms of "economic patriotism" (Clift and Woll, 2012) aimed at safeguarding and strengthening the EU's economy, even in the face of official free trade

rules. This trend, which had been evolving since the 2008 crisis (ibid), was further exacerbated by the election of Donald Trump as President of the United States in 2016 and his "America first" policy, which undermined international free trade agreements. In this context, European Investor states sought not only to address market failures and channel capital into the real economy but also to guide private investments into strategically important sectors for both the state and the EU as a whole (see author 2, this issue). These policies ushered in a new dynamic between member states and the EU, with both levels working to coordinate an expansion of de facto fiscal space (Merand, 2021), rather than constraining it as was the case until 2010 (Bickerton, 2017).

5. Post-Covid Investment Policies: Reinforcing the European Investor State

The Covid-19 crisis, which began in 2020, has accelerated and reinforced the trends discussed above. On the one hand, it has amplified the discourse advocating for public investments to address the economic fallout of the pandemic. On the other hand, it has temporarily weakened the austerity rationale that had previously constrained state spending. As a result, the European Union, in particular, has reoriented its use of conditionality to prioritize growth-enhancing investments over deficit reduction (Armingeon et al. 2022). However, our analysis suggests that the long-term impact of the Covid-19 crisis on the logic of the European Investor State, especially its reliance on private capital, is unlikely to be transformative. Although there has been a heightened emphasis on public investments in response to the crisis, the fundamental principles of the Investor State remain largely intact.

The Covid-19 pandemic and the subsequent economic recovery plans have further emphasized the importance of public investment for both member states and the European Union. These plans have underscored not only the counter-cyclical role of public authorities in boosting economic growth but also the need to align economic

recovery with the EU's growth strategy, which centers around the Green Deal. Consequently, there has been a strong focus on supporting sectors related to environmental and digital transitions. This has translated into support for industries such as hydrogen production, electric batteries, and biomedicine. A prime example of this approach is the "Next Generation EU" (NGEU) recovery plan, which is the largest of its kind ever initiated at the EU level, injecting €750 billion into European economies from 2021 to 2023 (Cabral, 2021).⁸

The key question is whether these public investment plans are consistent with the logic of the Investor State or represent a departure from it. While the fiscal context has temporarily shifted due to the pandemic, allowing more flexibility in shaping investment policies at the EU level, we observe continuities in the core principles of post-Covid public investment policies.

First, the European Commission, along with national policymakers, has emphasized the importance of distinguishing between productive and less productive investments to prioritize growth-enhancing policies.⁹ The relaxation of European fiscal rules is primarily aimed at supporting productive investments (EC 2022). This reflects a continued focus on economic competitiveness, with public spending directed primarily toward selected priority sectors like electric vehicle production and "green hydrogen." In contrast, social investments in human capital and social policies remain less prominent.

Second, while there has been a resurgence of more direct forms of public investment due to the pandemic, this does not signify a departure from the leverage-based logic of public-private partnerships. Many recovery plans, including the German investment plan, heavily rely on financial instruments to generate co-financing from the private sector. As

⁸ In addition to these EU wide recovery plans, several countries have launched other, complementary investment programs, e.g. France with a 30 billion plan, called "France 2030", announced in September 2021.

⁹ <https://www.euractiv.com/section/economic-governance/news/draghi-on-quest-to-challenge-eu-rules-and-grow-out-of-public-debt/> . Current debates on EU budget rules make this outcome increasingly unlikely, as member states seem unable to agree on such a carve out (Darvas 2023).

of now, it appears that the increased reliance on direct public spending is a temporary response to the urgency of the Covid-19 crisis. It is uncertain whether this trend will persist, as limited national fiscal space, the return of EU budget rules in 2024, and rising interest rates may lead to a revival of the smaller-scale public investments characteristic of the de-risking logic of the European Investor State.

The persistence of the Investor State logic is further supported by the financing strategy for the Green Transition. While the EU has allocated approximately €70 billion in annual public resources for the "crucial decade" of ecological transformation, it has identified a need for an additional €350 billion in annual investments to bridge the €2.8 trillion investment gap over the decade (EC 2020). To meet this massive financial challenge, the EU envisions a strategy of leverage and public-private co-financing. In essence, the current vision for financing the Green Transition implies a continued reliance on private funds, which will be attracted through de-risking mechanisms.

In summary, our hypothesis is that while post-Covid investment policies have strengthened the EU's capacity to steer investments, these changes are marked by path dependency with pre-Covid investment policies and the logic of the European Investor State. Consequently, regardless of the EU's fiscal capacity expansion (for a critical discussion, s. Schelkle 2021), we anticipate that the Investor State logic will continue to operate and expand, driven by ambitious investment goals related to climate change. It is crucial to examine this configuration of investment policies, its historical evolution, and its implications for industrial policy and allocation of resources. The papers in our special issue delve into these questions, as we will outline in the following section.

6. Overview of the Papers

This section provides an overview of the papers included in this publication and outlines their key findings and contributions. The papers can be broadly categorized into three groups, each offering a unique perspective on the concept of the Investor State in Europe:

1. The Rise of the Investor State in the European Union

The first group of papers explores the role of the European Union (EU) in shaping the emergence of the Investor State in Europe. Alayrac and Thyard's research traces the evolution of investment policies dating back to the 1960s and highlights the preference for market-based and financialized instruments, a trend that began in the 1990s with the establishment of the Single Market. They argue that this shift is influenced by changes in the sociological profiles of senior civil servants responsible for European investment policies.

Author 2, on the other hand, focuses on more recent developments in the Venture Capital market and identifies a new phase of EU investment policy characterized by assertive state intervention using financialized tools, even in the face of opposition from private actors. This represents a paradigm shift in EU investment policies that began around 2018, with implications for post-Covid interventionism.

Additionally, Endrejat's study examines how the European statistical office (Eurostat) classifies policy instruments as off- or on-balance sheet, shedding light on the specific form of the Investor State, especially in light of "off-balance sheet" expenses used for various investment tools prior to the Covid-19 crisis.

2. The implementation of the Investor state's logic at the local level

A second set of papers examines the implementation of national and European investment programs at the local level. Ducastel, Ferlazzo, and Rivière's research delves

into the investment tools employed for environmental transition in a French region. They reveal a fragmented investment policy lacking fiscal continuity and reliant on weak administrative resources, highlighting a paradox where short-term financial resources may not align with long-term policy objectives.

Volintiru and Nicola's paper focuses on the EU's "just transition" investment program at the local level in Romania. It illustrates how the delegation of both policy implementation and formulation to local authorities encounters challenges due to limited local institutional capacity, potentially hindering ambitious transitional programs.

3. The Investor state logic at the Member state level

A third set of papers analyzes the Investor state from Member states' perspective. By comparing the Wallon and Flemish regions in Belgium, Piron's research challenges the notion that the Investor state logic is rising everywhere in Europe and that public authorities have no other choice than adopting its policy instruments, such as public-private partnerships (PPPs) and off-balance sheet tools. His comparison shows indeed that, while Flanders has embraced a market-oriented stance, Wallonia made the political decision to maintain a more traditional investment mode. This shows that alternative orientations of public investment policies are still possible, when there is a political will for it.

At last, Author 1's work focuses on the French case at the national level. She highlights how public investment policies were promoted following the 2008 financial crisis, but also opposed to "non-investment" (current) spending, which were considered as unproductive and negative spending. The result was a dual fiscal policy featured by the promotion of public investment alongside austerity measures. She asserts that this dual fiscal policy, which still characterizes French fiscal policy today, is at the heart of the Investor state, at least in France.

In conclusion, these papers collectively shed light on a significant and enduring transformation in the way the EU and its member states conduct investment policies. Further research is required to explore the antecedents and consequences of this configuration, as well as its implications for political economy and its future evolution. This special issue serves as a starting point for a broader research agenda aimed at comprehensively understanding this renewed form of state interventionism.

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