Running on Empty: Fiscal Oxygen, State Throughput, and Macro-Governance in Europe's Recurrent-Shock Regime

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ABSTRACT

Europe entered the 2020s expecting recovery. Instead, one emergency bled into the next: pandemic shutdowns, an energy shock, inflation, ageing, and war on its borders. Each drew from the same dwindling reserves—public money, administrative capacity, and political consent. This article asks why governments can announce bold programmes yet watch them stall before they become infrastructure, reform, or growth. It calls the room to absorb shocks, invest, and retain legitimacy "fiscal oxygen," and the machinery that turns promises into outcomes "state throughput." Through a structured synthesis of institutional reports, macro-financial assessments, audit evidence, and policy literature across six domains, the study follows a tightening spiral. Scarce oxygen weakens investment; clogged delivery raises costs and erodes trust; lower productivity then shrinks tomorrow's fiscal and political room. The Recovery and Resilience Facility brings the story into focus: Europe can mobilise vast finance, yet money cannot build a grid, issue a permit, or complete a reform when project pipelines and public systems are strained. Governments may reject loans for strategic reasons, but delivery readiness remains indispensable. Europe's future therefore turns not only on what it can fund, but on whether its institutions can deliver before the next shock arrives at the door again.

Keywords: Energy competitiveness; Productivity; Debt sustainability; European economic governance; Monetary backstops

JEL Classification: E61; E62; H63; O43; O52

INTRODUCTION

Europe entered the 2020s with comparatively robust institutions and a policy architecture oriented toward stability. Yet pandemic disruption, energy-price volatility, inflationary pressure, and heightened geopolitical uncertainty have shifted the policy environment from episodic cyclical management to recurrent stress. In this setting, the central macro-governance question is no longer only whether governments can finance policy commitments. It is whether they retain enough fiscal oxygen and state throughput to convert commitments into productivity-enhancing outcomes while sustaining democratic legitimacy.

This paper uses the metaphor of "running on empty" to describe a structural condition rather than an acute breakdown. Economies and polities can remain outwardly functional while fiscal slack, administrative bandwidth, and legitimacy reserves are progressively depleted. The paper's core theoretical claim is that state throughput—the institutional capacity to move from authorised resources and strategic priorities to delivered outcomes—should be treated as a macro-governance variable. It mediates the relationship between fiscal space, productivity performance, debt sustainability, and democratic consent.

Two research questions organise the inquiry:

1. How do constraints on fiscal space interact with productivity underperformance in Europe's contemporary macroeconomic regime?

2. Why has state throughput rather than financing per se emerged as a binding macro-governance constraint on Europe's competitiveness strategy?

The paper makes four contributions. First, it advances a two-stage macro-governance theory that separates resource availability from resource conversion and specifies their complementarity: productive transformation requires both usable fiscal-political room and a functioning delivery chain. Second, it conceptualises fiscal oxygen as a state variable that can be depleted by shocks, debt service, demographic commitments, and legitimacy costs even when conventional solvency tests remain satisfied. Third, it conceptualises state throughput as realised performance rather than latent capacity, thereby connecting the macro conditions of financing to the meso-level processes of appraisal, coordination, permitting, procurement, implementation, and monitoring. Fourth, it specifies diagnostic and empirical criteria that distinguish the framework from additive accounts: bottleneck effects, stage-specific failure signatures, temporal feedback, rival predictions, and observable divergence cases in which high fiscal space coexists with weak delivery or strong administration coexists with inadequate financing. These contributions define the theoretical boundary for a companion empirical article, which can test the throughput channel with programme-level and country-year evidence.

CONCEPTUAL FRAMEWORK

Fiscal Oxygen, Throughput, and Productivity

Theoretical Positioning and Incremental Contribution

The framework is adjacent to, but not interchangeable with, established constructs. Conventional fiscal-space analysis asks how far government finances can expand before debt dynamics become unsustainable (Ostry et al., 2010), while newer work emphasises that usable room is contingent on monetary sovereignty, macroeconomic conditions, and political economy (Assa & Morgan, 2025). State-capacity scholarship examines stocks of extractive, administrative, organisational, and coercive capability (Besley & Persson, 2011; Fukuyama, 2013). Yet Williams (2021) shows why hypothetical bureaucratic capability must be separated from actual performance, and Fernández-i-Marín et al. (2024) demonstrate that implementation burdens can exceed available administrative capacity even in established democracies. Implementation capacity concerns the ability to carry a decision through organisational processes; absorptive capacity concerns the ability to commit and use funds; institutional quality captures the wider rules and accountability environment; and public-investment efficiency assesses what assets or services are produced from spending (Dabla-Norris et al., 2011; International Monetary Fund, 2022).

The incremental contribution is causal architecture rather than a new umbrella label. Fiscal oxygen is the usable room entering the policy system; state throughput is the realised conversion function operating across the delivery chain. The theory predicts a multiplicative bottleneck: when either term approaches its effective minimum, additional gains in the other yield diminishing transformation returns. It also introduces temporality. Fiscal oxygen can protect throughput by sustaining staffing, co-financing, maintenance, and political support during shocks; throughput can replenish fiscal oxygen when timely, credible delivery raises productive capacity, revenues, and consent, or deplete it when delay, cost escalation, and visible non-delivery consume resources and legitimacy. This reciprocal structure is not implied by fiscal space, capacity, absorption, or efficiency considered separately.

Table 1. Construct boundaries and proposed mechanisms

Construct	Primary focus	Distinction in this framework	Proposed mechanism or indicator
Fiscal space	Debt sustainability and room for fiscal manoeuvre	Solvency-centred baseline	Debt-service burden, interest-growth differential, primary-balance response
Fiscal oxygen	Simultaneously usable	Combines sustainable	Discretionary expenditure

	fiscal and political room	financing with shock absorption, investment continuity, and consent	margin, co-financing ability, shock-support burden, investment protection, trust
State capacity	Stock of administrative, fiscal, and organisational capability	Underlying capability, not realised delivery	Professionalisation, staffing, autonomy, coordination resources
Implementation capacity	Ability to carry adopted policy through processes	Policy- or organisation-specific execution capability	Process completion, compliance, implementation quality
Absorptive capacity	Ability to commit and use available funds	Finance-use dimension; does not by itself establish outcome quality	Commitment, contracting, disbursement, completion rates
Public-investment efficiency	Outputs or infrastructure quality generated from spending	Input-output performance, usually assessed after or during delivery	Cost, time, asset quantity and quality per unit of expenditure
Institutional quality	Rules, enforcement, accountability, and credibility	Broad governance environment	Rule quality, corruption control, accountability, predictability
State throughput	Realised conversion of authorised inputs into outputs and outcomes	Flow variable connecting capacity, implementation, absorption, and efficiency over time	Permitting and procurement duration, milestone reliability, cost variance, completion, outcome persistence

Construct Validity, Causal Sequence, and Discriminating Predictions

Causal sequence: The unit of explanation is a policy-investment episode nested within a country and time period. Authorised finance first encounters a mobilisation gate—whether borrowing headroom, co-financing, expenditure flexibility, and political support are jointly usable. It then passes through appraisal and prioritisation, intergovernmental coordination, permitting, procurement, implementation, and monitoring. Output becomes productive outcomes only if they are timely, sufficiently high quality, and maintained. Shocks and accumulated policy obligations affect both gates; realised outcomes feed back into revenues, debt ratios, trust, and future willingness to finance reform. This sequence identifies where failure occurs rather than inferring capacity from final expenditure or outcomes.

Convergent and discriminant validity: Fiscal oxygen should correlate with, but not collapse into, conventional fiscal-space measures: it must additionally vary with investment protection, shock obligations, and the political feasibility of sustaining adjustment. State throughput should correlate with administrative quality and public-investment-management measures, but it is observed in episode-level conversion performance—cycle time, milestone reliability, cost and quality variance, completion, utilisation, and outcome persistence. A country may therefore possess high measured state capacity yet display low throughput in a congested sector, or limited fiscal space yet preserve high throughput through prioritisation and strong execution. These divergence cases are essential evidence for construct validity rather than anomalies to be averaged away.

Distinct empirical signature: An additive model predicts independent average effects of fiscal and administrative variables. The present theory instead predicts threshold and interaction effects, stage-specific bottlenecks, and path dependence. Additional funding should have weak effects where throughput is below a

minimum operational threshold; administrative reform should have weak near-term effects where co-financing or investment continuity is absent; and the same shock should produce different persistence depending on the joint pre-shock configuration. Evidence of stable additive effects with no interaction, no stage-specific failure pattern, and no feedback from delivery to subsequent fiscal-political room would count against the theory.

Fiscal Space as "Fiscal Oxygen"

Fiscal space is conventionally defined as the capacity to mobilise resources without jeopardising debt sustainability or macroeconomic stability. In practice, fiscal space is also political capacity: it shapes whether governments can respond to shocks without precipitating distributive conflict that erodes trust and compliance. The concept of "fiscal oxygen" employed here foregrounds operational breathing room—the capacity to co-finance investment, cushion households, and implement reforms simultaneously.

Long-horizon pressures are central. The European Commission's Ageing Report documents projected increases in age-related expenditures in many European economies over the coming decades (European Commission, 2024a). These trends are not mere accounting artefacts; they shift the feasible frontier of public investment and condition the durability of the social contract.

State Capacity and Policy Throughput

State capacity refers to the ability of public institutions to design, coordinate, and implement policy credibly and reliably. Institutional and political economy literatures treat capacity as foundational to prosperity and social order (Besley & Persson, 2011; North, 1990). This paper operationalises capacity as policy throughput: the speed, reliability, and repeatability with which decisions convert into delivered outcomes.

Throughput becomes macroeconomically salient when large-scale transitions—energy and grid infrastructure, clean technology deployment, skills upgrading, and industrial adaptation—depend on permitting, procurement, project execution, and monitoring systems that are often excluded from standard macro dashboards. Research on EU Cohesion Policy likewise distinguishes administrative capacity from both financial absorption and policy effectiveness, showing why the quality of implementation processes must be analysed rather than inferred from spending alone (Bachtler et al., 2024).

Productivity under Recurrent Shocks

Productivity is frequently analysed as an innovation and technology issue, yet it is also an institutional diffusion, market integration, and scale issue. In Europe, productivity performance is tightly linked to Single Market effectiveness, firm scaling dynamics, and the availability of growth capital (OECD, 2025). Competitiveness assessments similarly underscore the need for coordinated investment and strategic action to address structural gaps (Draghi, 2024).

Conceptual boundary. The constructs developed in this paper are intended to clarify macro-governance relationships rather than to provide a full empirical measurement design. Fiscal oxygen refers to the usable fiscal and political room governments possess after accounting for debt sustainability, ageing-related spending pressures, shock-response demands, and investment needs. Policy throughput refers to the institutional capacity to convert strategic commitments into credible implementation without excessive delay, cost escalation, or legitimacy loss. Productivity performance is treated as the downstream macroeconomic outcome shaped by innovation, diffusion, firm scaling, infrastructure quality, and institutional execution. These concepts generate testable implications, but the detailed operationalisation of programme milestones, procurement-cycle measures, disbursement pace, execution indicators, and econometric tests belongs to the companion empirical RRF delivery paper.

Interaction Structure and Feedback

The framework advanced here is an interaction structure characterised by reinforcing feedbacks:

Tighter fiscal oxygen may constrain co-financing and shock absorption, increasing the political sensitivity of

reforms; the size of this effect should vary with borrowing costs, expenditure composition, and national fiscal institutions.

- Lower policy throughput may delay projects and reforms, with possible cost escalation, weaker credibility, and slower investment or productivity diffusion; these links are not estimated in this study.

- Weaker productivity growth tends to reduce potential output and the medium-run tax base, but whether this materially tightens fiscal oxygen depends on revenues, demographics, debt structure, and policy responses.

This feedback loop can generate persistent underperformance even absent an immediate headline crisis.

Analytic Approach and Theory-Building Scope

This paper is a structured conceptual synthesis and policy-oriented theory-building exercise rather than a systematic review or causal evaluation. To improve transparency and reproducibility, the review protocol followed five stages: scope definition, source identification, eligibility screening, source classification, and mechanism coding. The scope covered European macro-governance under recurrent shocks, with particular attention to fiscal space, demographic pressures, energy competitiveness, debt sustainability, administrative delivery, public-investment efficiency, political legitimacy, and the RRF as an illustrative case.

Search and selection protocol: Searches were conducted for English-language scholarly and institutional sources using combinations of the terms “fiscal space,” “state capacity,” “administrative capacity,” “implementation capacity,” “absorptive capacity,” “public investment efficiency,” “productivity,” “energy shock,” “debt sustainability,” “political legitimacy,” “Recovery and Resilience Facility,” and “Europe” or “European Union.” Searches covered Google Scholar and publisher or institutional repositories, including those of the European Commission, ECB, European Court of Auditors, OECD, IMF, BIS, and European Parliament. Backward citation tracing from foundational works and major institutional reports was used to identify additional sources. The search window ran through 30 September 2026, while older foundational studies were retained where necessary to define constructs.

Eligibility and appraisal: Sources were included when they (a) defined a focal construct, (b) documented a European macroeconomic or administrative mechanism, (c) supplied audit or programme evidence relevant to delivery, or (d) presented a credible alternative explanation. Sources were excluded when they merely repeated another source, lacked identifiable institutional or publication provenance, concerned non-European settings without transferable theoretical relevance, or made claims unsupported by an inspectable method or evidence base. Scholarly sources were assessed for conceptual relevance, research design, and limitations; institutional sources for remit, data provenance, and possible self-reporting bias; audits for scope and performance criteria; and media reports only for contemporaneous policy choices that were corroborated where possible by primary institutional data.

Source inventory: The retained evidence base contains 27 items: ten foundational, conceptual, or empirical scholarly works; one scholarly contribution focused specifically on administrative capacity and EU Cohesion Policy; fifteen institutional reports, audits, policy documents, handbooks, or analytical notes; and one contemporaneous media report used only for a policy-choice observation corroborated by Commission data. The expanded scholarly core includes work separating latent capacity from realised bureaucratic performance, measuring implementation burden relative to administrative resources, modelling the relativity of fiscal space, and assessing institutions across the public-investment cycle. Because the synthesis is purposive and theory-building, the inventory documents the evidence base but is not presented as a comprehensive census of every relevant literature.

- EU projections and governance documentation (European Commission, 2024a, 2024b, 2025a);

- ECB analyses of competitiveness channels and investment responses to energy shocks (Emter et al., 2023; Anaya Longaric et al., 2024);

- supranational audit evidence on programme monitoring and performance (European Court of Auditors, 2023);
- macro-financial stability perspectives relevant to the policy mix (Bank for International Settlements, 2024; European Central Bank, 2022);
- policy-relevant reporting on RRF loan take-up and absorption constraints (Financial Times, 2026).

Classification, coding, and synthesis: Each retained source was classified as conceptual scholarship, empirical scholarship, strategy or governance documentation, macro-financial assessment, audit or oversight evidence, programme data, or contemporaneous reporting. Evidence was coded against six domains—fiscal governance, ageing, energy competitiveness, debt sustainability, political economy, and monetary backstops—and five analytical fields: construct addressed, level and unit of analysis, empirical or theoretical status, mechanism supported, and limitation or rival explanation. Coding followed explicit decision rules: evidence concerning available resources was assigned to fiscal oxygen; evidence concerning latent organisational attributes to capacity; evidence concerning observed passage through delivery stages to throughput; and evidence concerning final input-output ratios to efficiency. Sources could support more than one field but could not change claim status: an illustrative case was not recoded as a general finding. Synthesis compared convergence, contradiction, boundary conditions, temporal ordering, and missing links. No numerical quality score was imposed across unlike forms of evidence.

Inferential rules and limitations: The synthesis distinguishes three claim types. "Documented findings" are results reported by empirical studies, official datasets, or audits within their stated scope. "Illustrative evidence" shows how a mechanism may operate in a particular programme or country but does not establish a Europe-wide relationship. "Proposed mechanisms" are theory-derived links that require subsequent testing. A claim was treated as comparatively well supported only where multiple independent source types converged. The procedure remains purposive rather than exhaustive; English-language and institutional-source emphasis may omit national scholarship, and heterogeneous source designs prevent meta-analytic aggregation. The article therefore maps plausible mechanisms and boundary conditions but does not claim econometric identification, causal mediation, programme-level attribution, or uniform effects across Europe.

Table 2. Evidence matrix for the principal claims

Claim	Evidence status	Support used in this article	Boundary or rival explanation
Ageing and repeated shocks can narrow discretionary fiscal room.	Documented finding plus synthesis	European Commission projections and ECB fiscal assessments	Magnitude varies with pension design, revenues, debt maturity, and policy choices.
Energy shocks can weaken investment and competitiveness.	Documented finding	ECB analyses of export competitiveness, corporate investment, and firm constraints	Exposure differs by energy mix, sector structure, contracts, and policy support.
Lower throughput may delay delivery, raise costs, and weaken credibility.	Proposed mechanism supported by audit and implementation literature	RRF monitoring evidence, EU-funds research, and administrative-capacity scholarship	Delay may also reflect legal safeguards, project complexity, regulatory change, or deliberate sequencing.
Financing capacity does not guarantee	Conceptual proposition with illustrative	RRF implementation timetable, monitoring	Loan non-take-up may reflect borrowing costs,

transformation capacity.	evidence	limits, loan choices, and absorption evidence	political preferences, alternative finance, or project quality.
Weak delivery may feed back into productivity, revenues, and legitimacy.	Proposed mechanism	Institutional theory, public-investment efficiency literature, and macroeconomic logic	Direction, lag, and magnitude require country-level empirical testing.
Monetary backstops stabilise financing but cannot substitute for productive execution.	Documented institutional role plus theoretical inference	ECB TPI design and BIS macro-financial analysis	Effects depend on fiscal credibility, market structure, and transmission conditions.

MACRO-GOVERNANCE FINDINGS

Europe's Low-Buffer Regime

Fiscal Oxygen Is Tightening Under Structural and Cyclical Pressures

Three features underpin the tightening fiscal regime. First, ageing increases baseline expenditure claims and narrows discretionary margins (European Commission, 2024a). Second, higher real interest rates reintroduce political salience to debt service and reduce the tolerance for sustained deficits, even where sustainability assessments remain broadly favourable. Third, the energy and inflation shock necessitated substantial fiscal interventions to avert social destabilisation.

ECB analysis indicates that energy-crisis support measures were sizeable in 2022–2023 and projected to unwind as temporary schemes expired (Checherita-Westphal & Dorrucci, 2023; Ferdinandusse & Delgado-Téllez, 2024). The analytically salient implication is that crisis response preserved stability while consuming slack.

Productivity Underperformance Has Become Politically Salient

Europe's productivity challenge is increasingly framed as a competitiveness and strategic autonomy problem rather than a narrowly technical growth issue. The Draghi competitiveness report argues that incrementalism is insufficient and that Europe requires a step-change in investment and strategic coordination (Draghi, 2024). OECD analysis similarly highlights the Single Market as a core lever for productivity and stresses the need to reduce internal barriers that inhibit firm scaling and innovation (OECD, 2025).

In a low-buffer environment, productivity shortfalls translate into political stress: wage growth becomes harder to sustain without inflationary pressure, the welfare state becomes more difficult to finance, and distributional conflicts intensify as growth disappoints.

The Energy Shock Exposed a Competitiveness Channel through Investment

Europe's energy shock operated not only as a short-run price event but also as a medium-run competitiveness channel via investment behaviour. ECB evidence suggests the energy-price shock affected euro area export performance through relative cost pressures and sector-specific dynamics, particularly for energy-intensive activity (Emter et al., 2023). Crucially, energy shocks can reduce corporate investment and innovation—especially among financially constrained firms—potentially undermining future competitiveness and productivity (Anaya Longaric et al., 2024).

The institutional significance is that competitiveness is increasingly shaped by system conditions (energy reliability and pricing, permitting speed, and the investment climate) rather than by isolated policy levers.

Common Financing Instruments Reveal Transformation-Capacity Limits

NextGenerationEU and the RRF demonstrate that Europe can design and capitalise large common instruments; they also reveal a broader macro-governance point: financing capacity is not equivalent to transformation capacity. The Commission has emphasised the RRF's temporality and the need to conclude implementation within the end-2026 horizon (European Commission, 2025a). The European Court of Auditors finds that the monitoring framework captures implementation progress but is insufficient to assess performance and value for money (European Court of Auditors, 2023). For this paper, these observations serve as illustrative evidence of a wider governance constraint rather than as a basis for detailed programme-level measurement.

Absorption constraints have also surfaced in take-up decisions. Reporting indicates several member states declined significant portions of available RRF loans, citing project identification constraints and reduced incentives in a higher-rate environment (Financial Times, 2026).

A plausible alternative interpretation is that loan non-take-up reflects strategic choice rather than administrative constraint: governments may prefer grants to loans for domestic political reasons, face higher marginal borrowing costs relative to earlier expectations, or avoid loans to preserve fiscal narratives under revised governance rules. In addition, shifts in market conditions can reduce the relative attractiveness of programme loans if sovereign funding can be obtained at comparable rates or with fewer procedural conditions.

However, these alternatives are not inconsistent with the throughput thesis. Even when non-take-up is partially strategic, the capacity to identify, design, permit, tender, and execute eligible projects remains a necessary condition for both (i) absorbing grants effectively and (ii) justifying additional borrowing for investment. Where project pipelines are weak or administrative bandwidth is constrained, the marginal value of loans declines because delivery risk rises, timelines compress, and compliance burdens become more salient. Thus, regardless of national motivations, the observed pattern remains analytically informative: where administrative and project pipelines are constrained, finance is unlikely to be the binding constraint.

Monetary Backstops Are Necessary but Not Sufficient

Europe has strengthened its stability toolkit. The ECB's Transmission Protection Instrument (TPI) was designed to counter disorderly market dynamics that threaten monetary policy transmission (European Central Bank, 2022), reducing the probability of self-fulfilling crises.

Yet monetary backstops cannot substitute for productivity growth. The BIS underscores that macro-financial stability depends on credible policy frameworks and that high-debt environments combined with repeated shocks create vulnerabilities requiring robust institutional responses (Bank for International Settlements, 2024). The implication is that Europe's policy mix cannot rely on stabilisation alone; it must rebuild growth capacity.

Cross-Country Heterogeneity and Boundary Conditions

Europe is not a single low-buffer case. Member states differ in debt levels and maturities, interest burdens, revenue capacity, demographic trajectories, energy mixes, industrial exposure, federal or unitary arrangements, procurement systems, administrative professionalisation, and access to alternative financing. The framework therefore predicts conditional rather than uniform relationships. High-debt countries may retain throughput through strong administrations and credible prioritisation; lower-debt countries may under-deliver because of fragmented authority, weak project pipelines, or regulatory bottlenecks. Energy-intensive economies may experience a stronger investment channel, while countries with diversified supply and deeper capital markets may absorb shocks more readily.

Alternative explanations must be evaluated alongside throughput. Programme uptake and execution may reflect political preferences over grants and loans, sovereign borrowing costs, debt-rule incentives, project quality, judicial or environmental safeguards, regulatory uncertainty, electoral timing, decentralised competencies, and the complexity of reforms selected. These factors may moderate, mediate, or independently

explain observed outcomes. Comparative tests should therefore use country fixed effects or matched cases, interaction terms, and institutional controls rather than infer a common European coefficient.

DISCUSSION

State Throughput as a Macro-Governance Variable

The preceding analysis suggests that Europe's binding constraint is shifting from financing conditions alone toward delivery capacity under fiscal and political constraint. Governments can mobilise resources, but outcomes increasingly depend on whether institutions can execute: whether permitting is predictable, procurement is professionalised, public digital infrastructure reduces transaction costs, and programme monitoring rewards performance rather than procedural compliance.

From an institutional perspective, this echoes arguments that fiscal and administrative capacity function as forms of productive capital that support long-run prosperity (Besley & Persson, 2011). It also aligns with broader accounts of how institutional rules and enforcement structures shape economic performance (North, 1990) and how inclusive, credible institutions sustain long-run growth (Acemoglu & Robinson, 2012).

The "running on empty" condition thus corresponds to institutional fatigue: repeated shocks and multi-transition agendas overrun delivery bandwidth, producing delays that raise costs, undermine credibility, and slow productivity diffusion.

Propositions and Empirical Operationalisation

Proposition 1 – Bottleneck complementarity: the marginal effect of additional fiscal oxygen on productive public investment will be positive only above a minimum throughput threshold, and the marginal effect of higher throughput will be larger where usable fiscal-political room is protected. This is stronger than an additive prediction. It can be tested with interaction terms, threshold models, and matched divergence cases. Fiscal oxygen indicators should combine debt-service-to-revenue ratios, structural primary-balance room, interest-growth differentials, discretionary expenditure margins, co-financing headroom, investment protection during shocks, and survey-based reform support. Throughput indicators should cover appraisal-to-authorisation time, procurement and permitting duration, milestone reliability, payment-to-completion lags, cost and quality variance, utilisation, and outcome persistence.

Proposition 2 – Stage-specific conversion loss: conditional on project complexity, safeguards, and sector, low throughput will generate identifiable losses at particular delivery stages rather than a generic association with weak outcomes. Appraisal or pipeline weakness should predict non-selection; coordination and permitting weakness should predict pre-contract delay; procurement weakness should predict tender failure, low competition, or price variance; implementation weakness should predict milestone slippage and cost escalation; and monitoring weakness should predict low utilisation or weak outcome persistence. A broad capacity index that cannot locate these failure signatures should explain less episode-level variation than the throughput measures.

Proposition 3 – Shock-conditioned persistence: comparable energy, demographic, or financial shocks will produce larger and more persistent investment and productivity losses where the joint pre-shock configuration combines low fiscal oxygen with low throughput. The mechanism predicts non-linearity: countries strong on one dimension may absorb the initial shock, but sustained recovery should depend on the other. Tests should interact exogenous or externally measured shock exposure with pre-determined oxygen and throughput measures while controlling energy intensity, debt maturity, automatic stabilisers, decentralisation, private-capital access, and pre-existing growth trends.

Proposition 4 – Endogenous fiscal-political feedback: visible and repeated gaps between authorised commitments and completed outcomes will predict subsequent reductions in institutional trust, reform support, and willingness to protect productive expenditure, after accounting for contemporaneous economic performance. The effect should be strongest where delivery promises are salient and distributional costs are

concentrated. A temporal test should establish that measured delivery failure precedes changes in trust or budget composition; survey trust measures, reform-support indicators, election timing, media salience, expenditure revisions, and subnational exposure provide candidate evidence.

Measurement and falsification protocol: Construct scores should be assembled transparently rather than collapsed prematurely into a single index. Indicators should be normalised within comparable institutional settings, reported by dimension, tested under alternative weights, and checked for measurement invariance across countries and sectors. Convergent validity requires association with adjacent fiscal-space, government-effectiveness, and public-investment-management measures; discriminant validity requires explanatory variation after those measures are included; predictive validity requires out-of-sample improvement in delivery or investment outcomes. The framework would be weakened by robust evidence of stable additive effects without interaction or thresholds, by an inability of stage-specific throughput measures to outperform broad capacity indices, by temporal ordering inconsistent with the proposed feedback, or by disappearance of the relationships after credible controls for project quality, political choice, borrowing costs, and regulatory safeguards. The companion study should preregister definitions and exclusions, model lags, address reverse causality, report country-specific and pooled estimates, test placebo outcomes, and publish indicator construction and robustness results.

Policy Implications for a Low-Buffer Europe

The framework points to three policy implications for a low-buffer Europe.

Prioritise Spending Quality under Fiscal Oxygen Constraints

Under constrained fiscal oxygen, the composition and efficiency of public spending become central. The IMF argues that reallocating spending toward high-return areas (infrastructure, education, health, and R&D) while improving efficiency can raise long-run output without increasing overall spending (International Monetary Fund, 2025). For Europe, this implies treating spending quality as a competitiveness lever rather than a narrow budgeting concern.

Align Common Instruments with Measurable Delivery Capacity

Common funding frameworks should be designed around delivery readiness as well as allocation size. At the macro-governance level, this means assessing whether member states possess credible project pipelines, administrative bandwidth, permitting capacity, procurement maturity, and implementation legitimacy before expecting common instruments to generate productivity-enhancing outcomes. Audit evidence suggests that monitoring focused on milestones and targets may be insufficient to capture value for money (European Court of Auditors, 2023). The policy lesson is to treat delivery capacity as a structural condition of investment effectiveness, while leaving detailed RRF delivery measurement to the companion empirical paper.

Treat Policy Throughput as A Macro-Governance Target

The post-2024 emphasis on medium-term plans creates an opportunity to treat policy throughput as a macro-governance concern rather than a narrow administrative variable (European Commission, 2024b). A practical agenda includes accelerated and standardised permitting for energy and grid projects, procurement professionalisation, public-sector digital infrastructure, stronger cross-border capital channels to support firm scaling, and administrative simplification consistent with regulatory credibility. The objective is to rebuild the institutional machinery through which fiscal resources become productive capacity.

CONCLUSION

Europe's competitiveness challenge is increasingly shaped by a low-buffer regime in which fiscal oxygen is tight, productivity underperforms, and state throughput limits the translation of policy commitments into delivered outcomes. The core argument of this paper is that delivery capacity should no longer be treated as an administrative residual. It is a macro-governance variable because it conditions whether fiscal resources

become productive capital, whether debt remains economically and politically sustainable, and whether citizens continue to perceive reform as credible.

"Running on empty" is therefore not an immediate crisis condition but a structural risk. Persistently thin buffers make policy errors more costly, reforms harder to sustain, and productivity improvements slower to materialise. In such an environment, fiscal space matters, but it is insufficient on its own. Europe's strategic capacity depends on rebuilding the institutional machinery of throughput: the ability to permit, procure, coordinate, execute, monitor, and adapt complex transitions at speed and scale while maintaining democratic legitimacy.

This conceptual claim opens a clear empirical agenda. Future research should test whether administrative capacity, delivery timelines, investment execution, and productivity diffusion operate as linked stages in Europe's investment state. A companion RRF delivery paper can do so directly by examining whether administrative throughput helps explain variation in RRF execution and downstream outcomes across member states. The present article deliberately sets the theoretical stage for that analysis rather than duplicating its measurement strategy, hypotheses, datasets, regressions, robustness tests, or detailed throughput indicators.

Conflict Of Interest

The author declares no conflict of interest.

Data Availability Statement

This conceptual study uses publicly available institutional reports, policy documents, audit evidence, and published literature. No new dataset was generated or analysed. The sources used are identified in the reference list.

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