NEXT GENERATION EU
A SOUTHERN-NORTHERN
DIALOGUE

Edited by Gian Marco Bovenzi
Conclusions and Policy Recommendations by Emma Galli

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ABOUT

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The European Liberal Forum (ELF) is the official political foundation of the European Liberal Party, the ALDE Party. Together with 47 member organisations, we work all over Europe to bring new ideas into the political debate, to provide a platform for discussion, and to empower citizens to make their voices heard. ELF was founded in 2007 to strengthen the liberal and democrat movement in Europe. Our work is guided by liberal ideals and a belief in the principle of freedom. We stand for a future-oriented Europe that offers opportunities for every citizen. ELF is engaged on all political levels, from the local to the European. We bring together a diverse network of national foundations, think tanks and other experts. At the same time, we are also close to, but independent from, the ALDE Party and other Liberal actors in Europe. In this role, our forum serves as a space for an open and informed exchange of views between a wide range of different actors.

FONDAZIONE LUIGI EINAUDI ONLUS

The Luigi Einaudi Foundation is a think tank promoting liberal ideas and the liberal political thought. Founded in 1962 by Mr. Giovanni Malagodi, the Foundation promotes liberalism as an instrument to elaborate original responses to the complexity of the current issues related to globalization and to the progressively increasing technological evolution, with the goal of fostering individual liberties and economic prosperity. The Foundation engages in guaranteeing to every citizen the conditions to grow as a human being, to live in wealth, and thrive in peace, through the recognition of diversities, the safeguard of human liberties and freedoms, as well as through the promotion of constructive discussions on facts and ideas.

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PARTNER ORGANIZATIONS

Projekt Polska

The mission of Fundacja Projekt: Polska is to bring together experts and young leaders to promote public policy solutions for Poland based on the free society, European values and the rule of law. The main goal of the foundation is to initiate changes in Poland with the help of professionals, think tanks and projects promoted with the support of the Foundation's partners.

VVD - Haya van Someren Stichting / VVD Internationaal

Haya van Somerenstichting/VVD International is responsible for the international activities and relations of the Dutch Liberal Party VVD. Haya van Somerenstichting/VVD International is based at the headquarters of the VVD in The Hague, The Netherlands. The main aim of Haya van Somerenstichting/VVD International is realising, maintaining and enhancing relationships with liberal sister parties and organizations around the globe and actively participating in international liberal networks.

MLS – Movimento Liberal Social

MLS, which was officially founded in 2005, aims at promoting social-liberalism in Portugal. The movement is a platform for individuals who believe that the old left-right dogma makes little sense today and that it is possible to secure a different and more constructive type of politics in Portugal. MLS stands for the sovereignty of the individual; a fairer society, in an environment of solidarity and respect between individuals; equality before the law; a state that ensures the defence of the individual and of society.

Cidadania Social

Cidadania Social is a Portuguese private non-profit association that promotes independent research, providing resources to design appropriate and sustainable social policies, with a special focus on employment, social security, social solidarity and health.

Civismo

Spanish Foundation, Civismo evaluates, through research, the effects of economic and social policies, communicate them to public opinion and propose alternatives, so helping citizens make up their own minds, make decisions based on as much information as possible, and therefore, with greater freedom. Civil society should be involved and heard when it comes to designing public policy, so that citizens get to exercise individual liberty and contribute to overall prosperity.

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Emma Galli
Gian Marco Bovenzi

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INTRODUCTION

Next Generation EU is an instrument proposed by the European Commission to create a sustainable, inclusive and fair recovery for Member States, in order to face the challenges deriving from the Covid-19 pandemic.

The resources will be invested in three main pillars (as pointed out by the Commission), and namely:

1. Support to Member States with investments and reforms;
2. Kick-starting the EU economy by incentivising private investments;
3. Addressing the effects of the crisis.

"Next Generation EU: A Southern-Northern Dialogue" is a comparative study aimed at ensuring a dialogue between the two "Southern-Northern" European macro-regions, here represented by Italy, the Netherlands, Poland, Portugal and Spain, for an inclusive, resilient and dynamic reprise of the EU. Overall, the volume intends to offer a liberal perspective on the national policies pursued within the NGEU framework and grounded on the respect of the rule of law and of a sustainable development.

The issues covered in the book *"Next Generation EU: A Southern-Northern Dialogue"* are crucial, especially in a long run perspective and heterogeneous. The authors of each chapter will highlight the policies' priorities of their countries.

Contributions from Italy provide an analysis of the major determinants of the structural decline of the Italian economy and focus on the capacity of the multilevel governance to use efficiently the NGEU resources. Spanish authors deal with the rule of law, taxation, and employment, thus implying how fundamental the Plan is in relation to the Spanish welfare State. In writing about sustainable business practices, ageing and digital transformation in the labor market, and energy transition, the Portuguese voices are oriented towards the best possible transition strategies. Authors from Netherlands point out perspectives on solidarity and fair redistribution in the EU, as well as the economic strategies and innovation in order to achieve better policies for the climate. Finally, authors from Poland focus on political narratives and economics strategies related to the implementation of the Plan in Poland – with a further focus on employment and ecological/energy transition.

Some remarks on the status quo of the Southern Northern dialogue and policy recommendations will conclude.

SECTION I
POLITICS AND RULE OF LAW

I
QUO VADIS ITALY? NEXT GENERATION ITALY AND THE FUTURE OF THE EUROPEAN ARCHITECTURE

Renata Gravina

Principles and criticism of the next generation italy program

Created a few months ago, Next Generation EU was conceived as a package of measures to boost the European economy. As a €750 billion temporary recovery mechanism it was, nevertheless, also designed to act as instrument with which to create a hopefully greener, more digital, resilient post *COVID-19* Europe better suited to the challenges of today and tomorrow.

The 167 pages of the Italian translation of the Next generation EU, namely the National Recovery and Resilience Plan, promises to pursue the objectives of a more modern, sustainable and cohesive country through more than 210 billion of financial resources set aside by the Next Generation EU programme and supplemented by funds allocated in the 2021-2026 budgetary program[1].

According to the Italian government, Next Generation Italy is 'a Recovery Plan' because it 'intends to

[1] Next Generation Italia. Il Piano per disegnare il futuro del Paese, Ministero dell'Economia e delle Finanze. https://www.mef.gov.it/focus/Next-Generation-Italia-il-Piano-per-disegnare-il-futuro-del-Paese/

tackle the economic and social impact of the pandemic crisis, building on the lessons learned from some of the most difficult months in the history of the Republic'. The Italian government has been explicit in stating that 'Italian recovery must not take us back to the "old days". It is to build a new Italy'[2]. Moreover Next Generation Italy was conceived of as a resilience plan. In Italian state terms resilience means ensuring the country's readiness for current and future difficulties and, more specifically, an awareness of the 'need to adapt our country to global challenges'[3] 'because the pandemic and the environmental emergency placed the extreme events of the present at the centre of our attention, both for the present and the future'[4]. Lastly, Next Generation Italy is also thought of as a national reform plan, because 'the investment lines are accompanied by the adoption of a reform strategy as an "enabling" and catalysing element, in line with the European Commission's Country Specific Recommendations (CSR) and the National Reform Plans (NRP) adopted by the Government'[5].

The thematic implementation of the Italian National Recovery and Resilience Plan (INRRP) has been divided into 6 missions: 1.digitalisation, innovation, competitiveness and culture; 2.green revolution and environmental transition; 3. infrastructure for sustainable mobility; 4. education and research; 5. inclusion and cohesion; 6. health. INRRP in turn comprises 16 functional components designed to achieve the economic and social objectives defined in the government's strategy[6].

[2]Italian National Recovery and Resilience Plan. http://www.governo.it/sites/new.governo.it/files/PNRR_2021.pdf, p. 11
[3]Ibidem
[4]Ibid.
[5]Ibid.
[6]Ivi, pp. 21-22

What has emerged in many scholars' opinions, from the first and also the current draft – the Italian plan published on 13 January 2021– is that Italian planning is at serious risk of being neither innovative nor stimulating cohesion, two aspects which are indeed essential to the success of the generally high expectations revolving around Next Generation EU's plans[7].

From the point of view of innovation (which is mostly based on digitalisation, since it affects all six missions across the board, albeit in a different manner) and especially during the second wave of the pandemic, many authoritative liberal Italian voices have warned of the risk that European facilities in INRRP could be used to cover state intervention, for example funding initiatives that are already underway, rather than funding entrepreneurial innovation, thus slowing down private incentives.

In actual fact, according to Giorgio Barba Navaretti, 'public resources will have little effect if they fail to mobilise individual investment, too'[8]. 'Private investment is therefore essential to complement public investment, as well as to achieve Europe's environmental objectives' envisaged by Next Generation EU9. Luigino Bruni fears 'the 'resource curse', and, on the other hand, the fact that a large amount of money can lead to a kind of lethargy which does not allow for the full development of pre-existing means. The 'resource curse' can only be averted by acting on what structurally slows down the Italian economy, such as gambling, corruption, tax evasion and the mafia

[7]L. Fix, T. Kirch, 'What if the Eu's Economic Recovery Plan Fails?', Carnegie Europe. https://carnegieeurope.eu/2020/11/19/what-if-eu-s-economic-recovery-plan-fails-pub-83274

[8]G. Barba Navaretti, 'C'è troppo Stato nella versione italiana del Next Generation Eu', Il Sole 24 ORE. https://www.ilsole24ore.com/art/c-e-troppo-stato-versione-italiana-next-generation-eu-ADd5OrCB?refresh_ce=1

[9]Ibidem

economy'[10]. While praising the Italian effort to meet emergency needs in a context of economic depression, Stefano Zamagni, civil economics theorist, has also called for greater vigilance 'to ensure that projects that will benefit from European funds do not fall victim to the usual Italian vice of funding initiatives that tend to correct and improve precariousness rather than vulnerability'[11].

Basically, while welcoming the huge investment made by Next Generation EU, the liberal world suggests concentrating efforts on combating Italian structural ineffectiveness and generally recommends investing in good business in the small and medium term in the spirit of relaunching enterprise and promoting sustainability. In short, in the words of Massimo Famularo, liberals are calling for the 'promotion of entrepreneurship and individual responsibility'[12] and inviting the Italian government – as Luigi Einaudi once responded with regard to the American Marshall Plan conditions – to refrain from 'plugging holes in the current state budget'.

Apart from the budgetary issue, which is also a fear of Moody's, since 'an Italian inability to take advantage of the substantial resources of the Next Generation EU in order to increase its long-term growth potential would likely exert downward pressure on its credit profile' , the applicative aspect of INRRP governance and cohesion seems also to pose a number of problems.

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[10] L.Bruni, 'Recovery Fund: una sfida da non sottovalutare. Il commento di Bruni, Zamagni, Becchetti e De Palo, Il risveglio duemila. https://risveglioduemila.it/2021/01/recovery-fund-una-sfida-da-non-sottovalutare-il-commento-di-bruni-zamagni-becchetti-e-de-palo/

[11] S. Zamagni, ibidem

[12] M. Famularo, il dito della crisi e la luna della ripresa.https://www.fondazioneluigieinaudi.it/laflealmassimo-episodio-9-il-dito-della-crisi-e-la-luna-della-ripresa/

For instance, for Federico Butera, political solidarity between public and private stakeholders should generate a synergy, a ‘double helix’ pact designed to use the funds immediately once they have been obtained. Moreover, it should not be simply a matter of dividing up resources but of creating and identifying viable strategies and execution’[15]. Likewise for Marcello Messori, who adds not only that public-private and centre-periphery cohesion should have come into play before the Italian draft plan was even drawn up, but also that the central government should ultimately take on responsibility for formulating a synthesis and demonstrating its decision-making capacity, at a time at which any failure to do so would mean irreparably wasting exceptional resources[16].

Nevertheless, the cornerstone of the ‘implementation’ phase of the Italian plan would seem – for Luigi Tivelli – to be totally invested in a depressing dispute between parties, at a time when only united governance, together with the Recovery Plan’s contracting authorities, can guarantee the plan’s feasibility, effectiveness and, above all, credibility (especially in relation to the European Union)[17].

That the ‘implementation phase’ of the Next Generation Italy plan should be the most complex aspect is something which all sensible economists agree on. Indeed, even Marco Buti, head of cabinet for the European Commissioner for Economic Affairs, Paolo Gentiloni, agrees with the idea that INRRP needs long-term structural planning, especially because it is a crossro-

[15] F. Butera, ‘I patti 2030 per usare bene il Next Generation Eu: il ruolo delle regioni e delle città’, Il Sole 24 ORE. https://www.ilsole24ore.com/art/i-patti-2030-usare-bene-next-generation-eu-ruolo-regioni-e-citta-AD87sax

[16] M. Messori, Next Generation EU e il Recovery Fund: innovazione, riforme e le sfide per l’Italia. https://www.biennaletecnologia.it/sessioni/next-generation-eu-e-il-recovery-fund-innovazione-riforme-e-le-sfide-litalia

[17] L. Tivelli, ‘Vi spiego l’ultima versione del Pnrr tra vizi e virtù’, Formiche. https://formiche.net/2021/01/pnrr-vizi-virtu-recovery/

ads in the institutional paths that Italy and Europe will travel down for generations to come[18].

The Next Generation Italy plan is facing the difficult task of finding a synthesis of very different demands and perspectives which have been the subject of differences of opinion within Italian government and society for far too long. Italy is backward in economic as well as administrative, organisational and cultural terms. But, as Messori has underlined, Italy's most likely future economic framework is a sequence of recessions and recoveries that could ultimately shift it towards stagnation[19]. In the light of this, and reflecting widespread scholarly views, Messori has pointed out that the Next Generation Italy plan is much more than a technical instrument, raising question marks over sustainable development and, most of all, opening up prospects for governance and fiscal policies that will bring the convergence with the euro area into play. Indeed, the implementation of Next Generation Italy is crucial both to saving the country economically, socially and culturally from a negative destiny and, as concerns Europe, from an accentuation of the North-South divide (an economic drift)[20].

What Destiny for European Architecture?

Widening the scope of this analysis from Next Generation Italy to the European institutional architecture gives us an insight into the challenge this current transition represents for Europe, one which is just as great as COVID-19's challenge to social 'resilience'. In fact, the

[18] M. Buti, Next Generation EU, cit.
[19] Messori, ibidem.
[20] Ibid.

pandemic has determined a sort of ‘year zero’, from which Italy will either emerge with a generational and long-range vision or it will have been a one-off intervention which can only imply a negative watershed with Italy’s own future.

Erika Widegren (co-founder of Re-Imagine Europa together with President Valéry Giscard d’Estaing) stressed that Next Generation EU ‘not only represents an opportunity for Italy to turn around its economic policies’, but also a complete change of perspective for Italy’s national architecture and indeed for post-Lisbon European strategy as a whole[21]. Emilio Rossi and Roberto Menotti have also pointed out that the current phase is a sign for the future, implying the need to show ‘the ability of all actors of global governance (in this case the European Union) to exit the crisis by strengthening international cooperation’[22]. On one hand, as the south of Europe together with Spain, Portugal and Greece, Italy cannot ignore European expectations, but on the other hand it should take the centre-stage in them, because at this stage ‘recovering the south of Europe’ and doing so successfully means ‘relaunching the post-Lisbon institutional architecture’.

If the European Union’s institutional architecture is unable to implement a credible European project without the south of Europe, from the Italian perspective returning to growth which leaves the south behind is also inconceivable. Any solution to Italian backwardness must include the south, as well as local government in general. As far as the south is concer-

[21]E. Widegren, ibidem

[22]E. Rossi, R. Menotti, Bilancio, ‘“Next Generation EU” e Rule of Law – lo snodo del futuro europeo’, Aspenia. https://aspeniaonline.it/bilancio-next-generation-eu-e-rule-of-law-lo-snodo-del-futuro-europeo/

ned, integration was seen as the only way of building the nation on liberty foundations even during the historic Italian unification debate. This is why the 'other Europe' (in the words of liberal Giuseppe Galasso[23]) must be brought into any plans, especially at this decision-making stage. But resolving Italy's backwardness also requires starting afresh from the local level of government, as was the case with the pandemic, when the health emergency imposed synergy between states but mostly between local authorities.

What is certain is that the new President of the European Commission, Ursula von der Leyen, has placed inclusiveness and integration centre-stage in her political agenda. There is nothing random about the fact that she has pledged to establish a Conference on the Future of Europe in an effort to bring Europe closer to its citizens and give fresh impetus to Europe-building 'from below', possibly also to avert institutional European unilateralism[24].

In this sense, then, a southern, 'bottom-up' perspective once again brings up the unresolved methodological subsidiarity approach as a tool for national and European policy in response to needs. As is well-known, the principle of subsidiarity – one of the European Union's guiding principles since the Maastricht Treaty of 1993 and historically deriving from the social doctrines of the church[25]– is based on the idea that any response to a need must be guaranteed by the institution closest to it[26]. From an organisational standpoint, subsidiarity implies the legitimacy of level strategies in

[23]G. Galasso (1982), L'Altra Europa. Per un'antropologia storica del Mezzogiorno d'Italia, Milano, Mondadori
[24]https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2019)644202
[25]Compendium of the Social Doctrine of the Church, n. 186
[26]A pillar of European Union Treaties (Article 5 (3) TEU). Definition of Subsidiarity. https://eur-lex.europa.eu/summary/glossary/subsidiarity.html

accordance with the origin (local, national, European) of the needs they respond to. From a philosophical-institutional standpoint, it implies an application of the federation principle (the sharing of powers between several levels of authority).[27] Since, until recent years, this principle was considered to have been left almost entirely on paper by states[28], the crucial question is whether the European perspective should now be turned upside down, from a southern, 'bottom-up' perspective[29] and whether this would contribute to a more acceptable satisfaction of needs and inclusion of citizens in the building of any future institutional architecture.

As the pandemic 'year zero' has, quite literally, reset our conceptual frameworks, could these be addressed by bottom-up and local perspectives? Might these be a better and more direct and immediate response to urgent needs, such as inclusion, work, enterprise?

One response to combined gradualism in skill organisation and guaranteeing pluralism, democracy and freedom is Dusan Sidjanski's idea of 'federal subsidiarity'. As a well-known pro-European and federalist at the Jacques Delors Institute, Sidjanski has asserted that the complementarity between the two concepts has been evident throughout the Europe-building process. Indeed, the federalist tendency has developed in respect of 'Union through diversity' for the different national and regional components of Europe[30].

[27]The principle of subsidiarity on the European Parliament's website. https://www.europarl.europa.eu/ftu/pdf/en/FTU_1.2.2.pdf

[28]V. Delhomme, 'How to turn subsidiarity into an effective tool ? Reflections on the Communication of the European Commission on the principles of subsidiarity and proportionality'.https://europeanlawblog.eu/2019/03/19/how-to-turn-subsidiarity-into-an-effective-tool-reflections-on-the-communication-of-the-european-commission-on-the-principles-of-subsidiarity-and-proportionality/

[29]P. Eng (2019), 'A Stronger Bond through more Subsidiarity', Make Your Choice: Liberal Visions for Europe, European Liberal Forum. https://www.liberalforum.eu/wp-content/uploads/2019/11/Make-Your-Choice-Liberal-Visions-for-Europe.pdf, pp.51-58

[30]D. Sidjanski (2002), Per un federalismo europeo. Una prospettiva inedita sull'Unione Europea, Milano, Franco-Angeli, p. 18

As far as subsidiarity is concerned, according to Sidjanski 'autonomy' and 'participation' are guaranteed by the principle which 'determines which level is most effective in exercising a function on the basis of available resources and capabilities'[31]. For Sidjanski, both federalism and subsidiarity have provided answers to emerging European problems, averting political impasse. This has happened because federal subsidiarity has been employed as a method with which to gradually intervene in institutions, without ceding further sovereignty in the already difficult Europe-building process[32].

For Michael Schneider subsidiarity has never been better-suited than it is today to the challenge of bringing 'Europe closer to the citizens, because it provides the perfect framework as it ensures that decisions are taken at the most appropriate level: European, national, regional or local. The principle of subsidiarity must thus', he argues, 'be the yardstick for the democratic legitimacy of EU legislation'[33].

For Paolo Venturi what seems certain as far as the state and the business community is concerned is the need to embrace this change in priorities and approach to citizenship for the sake of survival, because 'the person at the centre, the attention to the territory and to the communities inside and outside the companies relaunched a new mutualism where digital and local reconnect to respond to the growing need for security'[34].

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[31] Ivi, p. 19
[32] Ivi, p.46
[33] M. Schneider, 'Europe must deliver at the level closest to the citizens Subsidiarity: Past, present and future', European View, 18, 1, pp. 16-25. https://journals.sagepub.com/doi/pdf/10.1177/1781685819844466
[34] M. Dotti, 'Lo stato imprenditore è uno stato sussidiario o non è', Vita international http://www.vita.it/it/article/2020/07/28/lo-stato-imprenditore-e-uno-stato-sussidiario-o-non-e/156338/

Conclusion

The Next Generation Italy Plan and Next Generation EU should consider this period of pandemic-induced weakness as a sort of wake-up call, a chance to identify Europe's real needs and create a new institutional architecture in which modernity, sustainability and cohesion dialogue with citizens, through interlocking multilevel governance as well.

Beyond structural reforms[35] – without which no renewed agreement under the banner of economic Europe can be launched – Italy in Europe and Europe in Italy should focus on reducing the overregulation which paradoxically feeds the fading European dream through a real world principle such as subsidiarity constructed as a 'double federalism', as the American Society of Political and Legal Philosophy's 2011 annual meeting also asserted[36]. Certainly if it does not directly nurture the utopia of the European dream, with its need for a long-term vision, it will, at the very least, help to avert the slide towards a separate spaces 'heterotopia' crisis[37].

[35] P. Baroni, La stampa, cit.
[36] E. J. Fleming, T.L, Jacob (2014), Federalism and Subsidiarity: NOMOS LV, New York, New York Press
[37] M. Foucault (1971), The Order of Things, New York, Vintage Books

II
BATTLE FOR MONEY. WAR OF INDEPENDENCE. POLISH RIGHT-WING POPULISTS NARRATIVES ABOUT THE NGEU

Milosz Hodun

The way Polish right-wing populists have treated the Next Generation EU (NGEU) is symbolic and represents their approach to European integration in general. They reduce the European Union to a purely financial organization providing them with the cash they need to deliver on their electoral promises. Nothing else matters. The Polish ruling majority's narrative about the NGEU has been unstable and inconsistent, serving only domestic political purposes and, when needed, verged on Polexit threat. In right-wing propaganda, the European Union has been equated with an enemy lying in wait to destroy Polish sovereignty and all the great achievements of the proud Polish nation. Unfortunately, the EU's leaders have not risen to the occasion and lacked the courage to effectively stand up for fundamental European values. The consequences of the months' long discussion about the NGEU and a (dis)information campaign run by the Polish authorities will be long-term. And they won't be positive

A Huge Polish Success

"This is a huge success, above all, owing to the volume of funds we have managed to win for Poland", commented Jarosław Kaczyński, leader of the right-wing populist Law and Justice party (PiS) after the EU Summit's deal was announced in July 2020. "It is a huge success of Poland, since we have achieved as much as possible", he added. Moreover, Prime Minister Morawiecki (PiS) summarized the deal as an "unprecedented" achievement for Poland, stressing that he himself negotiated an additional EUR 600 million "in the final hours".

The deal was celebrated by the government and all right-wing media. Morawiecki organized a press conference in Brussels together with Hungary's Prime Minister Viktor Orbán to claim victory. "We fought it out, and we won", said Orbán. "Hungary and Poland didn't simply secure substantial funds, we have also protected our national pride", he added[38].

As a matter of fact, Poland's ruling coalition had had a very positive attitude towards the Next Generation EU plan ever since it was announced by the European Commission. Already in May Morawiecki and President Andrzej Duda praised the EU recovery plan in a public statement, stressing that this "multibillion investment injection" is a result of Poland's "hard negotiations strategy". Morawiecki highlighted his personal engagement, taking personal credit for this "new Marshal Plan for Europe", adding that the NGEU was

[38]KPRP (2020, July 21), 'Sukces na szczycie Rady Europejskiej – wynegocjowaliśmy ponad 750 mld zł z budżetu unijnego i Europejskiego Instrumentu na rzecz Odbudowy'. Available at https://www.gov.pl/web/premier/sukces-po-szczycie-rady-europejskiej--wynegocjowalismy-ponad-750-mld-zl-z-budzetu-unijnego-i-europejskiego-instrumentu-na-rzecz-odbudowy

"proof that Poland's voice is heard, taken into account and appreciated". Duda, who was at the time fighting for re-election, also wanted to take some of the credit for this success, noted his – rather insignificant – letter to European leaders from late April, in which he appealed for a new investment fund[39].

Indeed, the sums presented by Morawiecki and willingly reiterated by government-controlled outlets were impressive and could have been easily transformed into a PiS propaganda machine. According to the agreement, Poland's share of the budget has been set at EUR 124 billion, and up to EUR 160 billion with loans.

But even more important than billions of Euros in the official communication was the message about Poland's protected sovereignty. The key battle of the Summit – from PiS's perspective – was that revolving around the rule of law mechanism[40]. Originally the EU27 agreement referred to a new system "to tackle manifest generalized deficiencies in the good governance of member state authorities as regards respect for the rule of law when necessary to protect the sound implementation of the EU budget, including NGEU, and the financial interests of the Union". And this system was seen by a large part of the right-wing majority in Poland as something of an existential threat to the nation. Such opinions were expressed, in particular, by justice minister Zbigniew Ziobro and his grouping[41].

[39]Pankowska, M. (2020, May 29), 'Morawiecki i Duda o pakiecie pomocowym UE: „Głos Polski nadaje ton i wytycza ścieżki"', OKOpress. Available at https://oko.press/morawiecki-i-duda-glos-polski-nadaje-ton-w-ue/

[40]Events in Poland as regards the independence of the judiciary led the European Commission to open a dialogue with the Polish Government in January 2016 under the Rule of Law Framework. Due to lack of progress through the Rule of Law Framework, on 20 December 2017, the Commission triggered Article 7(1) procedure for the first time. In addition, on 2 July 2018, the Commission launched an infringement procedure on the Polish Law at the Supreme Court. On 24 September 2018, the Commission referred the case to the CJEU. On 17 December 2018, the CJEU issued a final order imposing interim measures to stop the implementation of the Polish law at the Supreme Court. On 29 July 2017, the Commission launched an infringement procedure on the Polish Law at Ordinary Courts, on the grounds of its retirement provisions and their impact on the independence of the judiciary. The Commission referred this case to the CJEU on 20 December 2017.

[41]In actual fact, PiS is a coalition of three parties, officially called the United Right. PiS plays the primary role, but leaders of two satellite parties, Solidarity Poland and the Alliance, were represented in the government

Ziobro, Morawiecki's main political opponent within the ruling camp, publicly appealed to the Prime Minister to veto any links between the rule of law and the budget.

The final deal in July "underline[d] the importance of the protection of the EU's financial interests" and the rule of law, proposing a regime of conditionality "to protect the budget and Next Generation EU" to be introduced. Interpretation of this conditionality became the bone of contention between the Warsaw-Budapest axis and the rest of the EU. European leaders presented the mechanisms as a huge step forward. Charles Michel said that the link between the budget and the rule of law was clear. Ursula von der Leyen noted that "for the first time in the EU's history, respect for the rule of law will be a decisive criterion for budget spending". On the other hand, Morawiecki and Orbán announced that "there is no direct link in the agreement between the rule of law and budgetary resources".

This discrepancy in understandings stems from confusion over how the decision on the rule of law mechanism would be made, and which body or bodies would be responsible for it (unanimity at the European Council or a qualified majority voting in the Council)[42]. The EU leaders did not protest loudly and clearly against the Polish-Hungarian interpretation, were not willing to spoil the festive momentum of the agreement and were mobilizing for further battles over the fundamental principles on legal grounds.

[42]Hegedüs, D. (2020, July 21). 'What EU leaders really decided on rule of law', Politico. Available at https://www.politico.eu/article/what-eu-leaders-really-decided-on-rule-of-law-budget-mff/

This EU strategy allowed PiS to continue its successful propaganda over the months which followed. NGEU was presented as an extraordinary opportunity for the modernization of Poland. The government disseminated visions of future development and making it through the Covid-19 crisis with a minimum of sacrifice. In his campaign Andrzej Duda presented his own multibillion investment plan for Poland. It included mega-projects like the Central Transport Hub and the Vistula Spit canal, but also a scheme for creating a nursery in every single municipality. Answering questions about the funding of Duda's promises, deputy speaker of PiS said: Next Generation EU[43].

Various ministries began work on designing and implementing the National Recovery Plan[44] (stemming directly from the NGEU). Deputy Prime Minister Jadwiga Emilewicz said that it "is intended to be a comprehensive program covering reforms and strategic projects which will aid the Polish economy in successfully overcoming crises. This means that the program's measures are intended to strengthen our social and economic resilience to future challenges and crises"[45]. The links between the National Recovery Plan and the Next Generation EU were intentionally not displayed so as not to overshadow the PiS's official merits. PiS was supposed to get all the glory.

Polish Sovereignty v. Eurocrats, Communists and Oligarchs

This narrative was omnipresent in the government's

[43]'Skąd pieniądze na plan Dudy? Wicerzecznik PiS: z Unii' (2020, June 8), Business Insider. Available at https://businessinsider.com.pl/finanse/plan-dudy-finansowany-przez-ue-z-europejskiego-funduszu-odbudowy/s4q8fk3

[44]Gov.pl (2020, September 23), 'The National Recovery and Resilience Plan amounts to approximately 60 billion for Poland'. Available on https://www.gov.pl/web/development-labour-technology/the-national-recovery-and-resilience-plan-amounts-to-approximately-60-billion-for-poland

[45]Ibid

communications until November. And then suddenly, on November 10, the EU Parliament and the German Presidency reached a compromise on the text of a Regulation establishing a rule of law conditionality mechanism for the EU budget. It would allow funds to be suspended in the event of rule of law breaches “that directly affect the budget or seriously risk doing so”. Polish and Hungarian governments were furious. The Regulation was approved by a qualified majority in the Permanent Representatives Committee, but, at the same meeting, Poland and Hungary vetoed the Own Resources Decision (ORD)[46].

Warsaw and Budapest[47] issued a joint statement requesting a “substantial modification” of the mechanism[48]. They stressed that the outcome of the negotiations between the Council Presidency and the European Parliament does not conform to the agreement reached by the Heads of State and the Government in July. The statement was, obviously, welcomed by the right-wing media in Poland[49].

Morawiecki reiterated on many occasions that the mechanism went against the Treaties, e.g. in this interview for FAZ: “The mechanism creates the risk of legal uncertainty. A wise law must be universal, not particular. This mechanism is an expression of particularism. It can be abused. Someone might use it with fatal consequences for the EU.

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[46]The ORD sets out the maximum level of resources the EU budget can draw from member states. Increasing that limit was required for the EU to issue the bonds funding Recovery and Resilience Facility.

[47]Slovenia’s Prime Minister Janez Janša, a close ally of Orbán, gave his support to Hungary and Poland. While Slovenia did not join Poland and Hungary in vetoing the budget, Janša said in his letter that it would not be appropriate for a political body to adjudicate in disputes over the rule of law.

[48]Gov.pl (2020, November 26), ‘Joint Declaration of the Prime Minister of Poland and the Prime Minister of Hungary ‘. Available at https://www.gov.pl/web/eu/joint-declaration-of-the-prime-minister-of-poland-and-the-prime-minister-of-hungary

[49]The government-dependent portal wPolityce.pl praised it: “The most important thing is the message of unity and solidarity. ... It is a statement that could not be clearer. It says: you will not divide us, you will not play us off against each other, you will not isolate us, you will not be able to bribe us. (. . .) Since we’ve already put in our veto we can’t let ourselves be fobbed off with another trick from Berlin and Brussels.”

Once that gate is open, no one will be able to close it"[50]. PiS attacked the mechanism for its vague definitions and ambiguous terms lacking in clear sanctions criteria and containing no meaningful procedural guarantees.

Later the language of the Polish PM became even harsher. Morawiecki said the term "rule of law" is "propaganda" reminding him of communism. He hit out at what he called the European oligarchy. "An EU in which there is a European oligarchy that punishes the weakest is not the EU we have entered and it is not the EU that has a future", he said. "It is a question of sovereignty", he continued, warning that the laying down of conditions such as rule of law could lead to the EU's demise[51].

The topic of sovereignty became dominant in the domestic narrative of the right-wing populists. PiS wanted to present itself as sole defender of Poland's independence vis-à-vis attempts by Eurocrats, but mostly Berlin and Paris, to humiliate a proud nation. But there was more. PiS spokesperson Anita Czerwińska said: "This attempt to deprive Poland of its sovereignty is perhaps only the beginning and a primary example that more countries are beginning to fear and ask - today Poland, and tomorrow which country may be next?"[52]. Therefore, PiS made itself a self-appointed, uninvited protector of the sovereignty of all European nations.

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[50]Gov.pl (2020, December 13), The interview in FAZ with PM Mateusz Morawiecki. Available at https://www.gov.pl/web/denmark/the-interview-in-faz-with-pm-mateusz-morawiecki

[51]It reflected Budapest's stance. E.g., Hungary's justice minister, Judit Varga, said: "Hungary respects EU treaties. We expect EU institutions to do the same. Nothing is agreed until everything is agreed". "[T]he European Parliament is again part of the problem and not the solution. If it cannot help in the fight against Covid and restarting EU's economy, at least it should stop the political and ideological blackmail of member states", she added (Twitter, @JuditVarga_EU, 2020, November 5). Viktor Orbán called the mechanism a "political and ideological weapon", designed to "blackmail" and punish countries that reject forced immigration.

[52]'Poland will not withdraw from EU says ruling party spokesperson' (2020, December 1), The First News. Available at https://www.thefirstnews.com/article/poland-will-not-withdraw-from-eu-says-ruling-party-spokesperson-18021

Morawiecki was backed by both President and Parliament. Andrzej Duda backed the government. "It is completely unreasonable to assume that we will agree to regulations that will allow for arbitrary decisions about whether or not the EU funds will be paid out", said deputy head of the President's Office Paweł Mucha. "Such a mechanism is not only not in the interests of Poland, but also all other European Union countries", echoing Morawiecki's spin. The Sejm rejected three draft resolutions filed by opposition parties which called on the Prime Minister to reach agreement on the NGEU[53], and, instead, adopted a resolution drafted by PiS MPs designed to reach an agreement in line with the conclusions of the July European Council[54]. Additionally, the Ministry of Foreign Affairs dismissed a proposal by Ursula von der Leyen, that Poland should refer a contested rule of law clause to the European Court of Justice. Minister Zbigniew Rau argued that the provisions included in the regulation are "unclear, imprecise and offer the Commission's bureaucrats full discretion"[55]. As an example, he pointed to the "threat to judicial independence", which, he said, would lead to the Commission making arbitrary decisions that could be "ideologised."

The "ideologisation" notion is prominent is PiS's propaganda. In the case of the NGEU negotiations, once again, justice minister Ziobro took the lead in playing this particular card. He repeatedly warned about "the

[53]The Polish People's Party (PSL) motioned for adding an entry to the Constitution on Poland's membership of the European Union. And Polish local governments prepared a joint stance on the EU budget criticizing the central authorities. See 'Polish local gov'ts preparing joint stance on EU budget - Warsaw mayor' (2020, November 24), The First News. Availabla at https://www.thefirstnews.com/article/polish-local-govts-preparing-joint-stance-on-eu-budget---warsaw-mayor-17861

[54]'Poland's lower house calls for return to talks on EU budget' (2020, November 19), The First News. Available at https://www.thefirstnews.com/article/polands-lower-house-calls-for-return-to-talks-on-eu-budget-17736 But the Senate called on the need "to respect the national interest and to withdraw from, contrary to the Polish raison d'état, the threat of vetoing the EU budget". 'Senate calls on gov't to approve EU budget' (2020, November 25), The First News. Available at https://www.thefirstnews.com/article/senate-calls-on-govt-to-approve-eu-budget-17892

[55]'Poland rejects von der Leyen's EU court challenge option – FM' (2020, November 27). Available at https://www.thefirstnews.com/article/poland-rejects-von-der-leyens-eu-court-challenge-option---fm-17927

regulation which makes Poland's access to the EU budget dependent on the European Commission's arbitrary, political and ideological evaluation". It was Ziobro's party, together with conservative organizations and the church, which noted that the rule of law mechanism is a first step to forcing Poland to accept policies like gay marriage and same-sex couple adoptions. He repeatedly demanded a veto on the compromise and announced that any other action would mean political surrender.

But this characteristic PiS rhetoric was founded on ultra-conservative values and declared that protecting the national interest was not enough in this case. The government's narrative had to be taken on with everything that had been said before about the NGEU's salutary effect on the Polish economy[56]. When it became clear that the European Commission was assessing options to circumvent the veto, considering options for NGEU without Hungary and Poland, the Polish government began undermining the financial helpfulness of the fund. "The Polish economy is doing very well and of course next year we can survive without the part of the funds that would be slashed by the provisional budget", deputy prime minister Jarosław Gowin said. Representatives of the government played down the significance of the EU recovery fund, falsely claiming that it is mostly loans that Poland does not need, as it can borrow more cheaply on the financial markets[57]. Morawiecki declared that Poland is working on a "plan B". He added that his administration was in the process of developing an

[56]In 2018, payments from the EU accounted for 3.43% of the gross national product in Poland
[57]They did not comment on the costs of such loans. Poland is not in the Euro-zone and has higher debt servicing costs than the European Union and most member states.

alternative investment program that would support anti-crisis projects already underway, "so they will not be halted - support for those projects that will be carried out with a share of the EU funds.[58]" He stressed the critical role of the National Local Investment Fund[59].

A Glorious Victory

This period in which the Next Generation EU was disregarded ended abruptly on December 10, when European Union leaders clinched a deal. Morawiecki, yet again, praised the budget and described the deal as "a double victory". "The EU budget can be implemented now, and Poland will receive from it PLN 770 billion. This money is safe because the conditionality mechanism has been limited by very precise criteria", he stressed. "We have a budget, together with the reconstruction fund, which means big funds for investment, big funds for supporting the development of Poland's economy, for new technologies, for many goals that need to be implemented, especially now that we want to quickly come out of the pandemic. That's important to us", he added. Once again the right-wing government presented the Next Generation EU as a key element in the Polish government's post-Covid recovery strategy and a personal success of Morawiecki's and his political camp.

PiS, presented sovereignty as having been protected, and Poland having salvaged respect for treaties and the rule of law on the supra-national level. "There is no amount of money for which one would give up so-

[58]'Government preparing 'plan b' in case budget talks fail – PM' (2020, December 4), The First News. Available at https://www.thefirstnews.com/article/government-preparing-plan-b-in-case-budget-talks-fail---pm-18130
[59]Governmental program funding local investments, predominantly in municipalities governed by PiS.

vereignty," Kaczyński said defending the deal[60]. "We were and we are determined to defend our sovereignty", he added. "We will not agree to impose measures on Poland that are contrary to our culture and tradition, to subordinate our country to the main EU players. Nothing has changed or will change in this matter. That is why we negotiated hard and demanded very precise provisions to protect our freedom" – these words of Kaczyński's were translated in the PiS-controlled media into a message that the rule of law clause would be limited to ensuring that EU funds are spent correctly according to precise criteria and not touch on social issues such as abortion, LGBT+ rights or immigration policy.

The Consequences of Populist Narratives

This Next Generation EU story speaks volumes about how right wing populists function. Poland is a perfect example of their political and communication strategies in general, and as regards European integration, in particular. First of all, the instrumental way PiS used the NGEU for its short-term goals shows us just how illogical and incoherent populist storytelling is. Populists change their minds and arguments radically, at the drop of a hat. Something that has been presented as a big success can, overnight, be the most troublesome obstacle, and then be praised once again a few days later. Casual links between events are ignored, consistency is seen as a weakness. Rationality is covered over by highly emotive narratives. Big words like "independence", "nation", "protection of interests" can-

[60]The deal was under attack by right-wing parties within the ruling coalition (Solidarity Poland) and the opposition (far right Confederation).

cel out more challenging socio-economic terminology, and are juxtaposed to processes like "negotiations", or "compromise" that are presented as signs of vulnerability. Juggling with meanings covers all failures.

Polish populists are particularly successful with such strategies because they know they control the means of communication between their party and their electorate. Changing the TVP into an organ of the ruling party and establishing a network of media outlets fully dependent on the government has generated massive right-wing echo chambers. PiS loyalists zealously reprise arguments they hear all the time in these outlets. As there is no space for questions and other opinions, the general perception of the Next Generation EU changes as quickly as the PiS narrative.

And this narrative has adopted the language of the EU institutions to its own ends. It is a significant change that has allowed populists to supplement their rhetorical battles and shift part of them to the level previously occupied by the European mainstream. In the Next Generation EU debates Morawiecki presented himself as a defender of the Treaties. "I could (…) ask in the name of what values are the EC and the European Parliament willing to bypass regulations laid down in the Treaties? It's a little like placing German law above the German constitution", Morawiecki told FAZ[61]. He smartly turned he arguments of his opponents from the Summit on the heads and presented himself as the true advocate of the rule of law in Europe, shifting from suspect to prosecutor. In his defense

[61] 'Rule of law clause violates rule of law, Polish PM tells German daily' (2020, December 3), The First News. Available at https://www.thefirstnews.com/article/rule-of-law-clause-violates-rule-of-law-polish-pm-tells-german-daily-18079

he marshalled legal analyses produced by EU institutions, illustrative of the way populists selectively use the legal framework of any institution they choose and manipulate them to their own ends.

It is important to stress that two very different narratives are used by PiS domestically and in its relations with EU partners. In Poland PiS presents itself as a Euro-sceptic party, the only political force protecting Poland's sovereignty vis-à-vis Brussels and its powerful capitals. For Jarosław Kaczyński there should be no other party to the right of the PiS and the PiS must cater to voters who believe that European integration has gone too far and the EU should be limited to its economic purposes. As PiS currently has a far right rival, the government is even more fervent in its criticisms of the EU, its leaders and its instruments, and veto threats appear before every summit. On the other hand, deprived of friends and allies in Europe Prime Minister Morawiecki, can only ruffle a few feathers in Brussels. In decisions fundamental to the EU (those regarding the future of the Union, not about Poland itself) he eventually compromises. This leaves time for the show prepared for the domestic audience to run its course, but, ultimately he gives up. This was the case with the Next Generation EU veto threat, and the climate goals, too. The latter were also quietly approved by the Polish government. After all it's all about money, money that populists like Morawiecki or Orbán need to fund their promises.

The EU leaders understand the "whining and delaying" strategy employed by Warsaw and Budapest. They have got used to letting the populists play this game for their domestic goals. Unfortunately, such behavior has at least two negative consequences.

First of all, a new wave of Polish Euro-scepticism is under way. This wave is a very specific one, it does not involve citizens with the most extreme views, left or right, but those who, not long ago, were the most Euro-enthusiastic. Polish people who used to believe most in the Integration process and trust the institutions the most, no longer see the EU as an active defender of fundamental values. By contrast, the thinking is that the EU limits democracy and the rule of law in Poland for economic benefits. In other words, many Poles wanted the EU to protect Poland from PiS authoritarian reforms and they were deeply disappointed[62].

Secondly, the discussion on the NGEU only deepened an ongoing process which sees the EU as a cash cow. For many years – and even decades – the EU has been presented by the Polish authorities mostly as a source of money for much needed investments. All other aspects of European integration, especially those regarding peace, security, democracy, rule of law and the protection of liberal values, have been omitted. This was visible in 2020 when PiS began arguing that "we actually don't benefit so much from the EU and Western European countries are indirectly exploiting us"[63]. Reduction of the EU to purely financial mechanisms is extremely dangerous as it may, in the near future – as Poland's position of net beneficiary will be

[62]Kublik, A. (2020, December 28), 'Nowy eurosceptycyzm Polaków. To efekt rozczarowania Unią', Gazeta Wyborcza. Available at https://wyborcza.pl/7,75398,26641120,nowy-eurosceptycyzm.html

[63]TVP systematically airs views arging that Western European countries, like Germany and the Netherlands, benefit much more than Poland from the common market, e.g. 'Niemcy zarabiają na polskim rynku' (2020, December 7),

less visible – lead to hardline anti-European tendencies and a general feeling that "we don't need all this EU any longer and we can be better off by ourselves".

And we mustn't forget that PiS is doing a great deal to influence people's opinions on the EU. As the editor-in-chief of the daily *Rzeczpospolita* wrote: "Poles still love the European Union. ... When asked how we would vote in a referendum on exiting the EU, 81 percent said they would vote to stay. Almost one in ten - 11 percent of respondents - say they would vote against remaining a member. ... What I fear is something other than a loss of funding: the media storm that is currently being whipped up against the EU in Poland because it is purportedly reprimanding the country for making use of its veto powers. To believe these voices, in a few months similar surveys could produce very different results". We liberal Europeans must do everything we can to defend European values and remind people what the EU really is, so that no other exit will be possible in the future.

III
RULE OF LAW IN SPAIN UNDER SCRUTINY FROM BRUSSELS

Juan Soto

Nothing can be taken for granted. Not even the cornerstone

Today, democratic values would seem to be in danger even in Europe where, ever since the end of the Second World War, they have been mistakenly taken for granted. This so-called democratic deficit[64] is a malaise not only of the citizenry of liberal democracies but also of a number of EU member state governments and public institutions.

For this reason, the Next Generation EU (NGEU) recovery plan tackling the economic downturn generated by the Covid-19 pandemic has emphasized the importance of democratic quality and the rule of law, setting conditions on countries receiving these funds. The reasons behind this are both instrumental and normative. The latter consists of the respect for the law which all EU member states must abide by, as enshrined in Article 2 of the Treaty on European Union (TEU). And the former is a matter of ensuring that these funds are properly implemented, managed and targeted on the right projects. In other words, a greater degree of separation of power and checks and balances, and the rule of law, would improve the impact of these funds[65]. That said, as long ago as May 2018—long before Covid-19 and the subsequent crisis—the European Com-

[64]The term democratic deficit may be used to denote the absence or underdevelopment of key democratic institutions, but it may also be used to describe the various ways in which these institutions may fail to function properly, such as lack of transparency and accountability, inadequate citizen participation, etc.

[65]At the same time, there is a palpable reluctance among net budget contributors to send more EU funding to member states with corrupt governments.

mission decided to link the effective receipt of funds from the Multiannual Financial Framework to respect for the principles set out in the TEU, in order to protect them. In other words, the idea of conditionality is not new. As a matter of fact, in its 2018 proposal to protect the EU in the "case of generalised deficiencies regarding the rule of law in member states, the European Commission referred to deficiencies in the administration of justice that "affect or risk affecting the principles of sound financial management or the protection of the financial interests of the Union" (Art 3.1)"[66]. As a result, since many of the NGEU funds will be subject to European Structural and Investment fund (ESI) regulation, the rule of law conditionality will also apply to these funds.

It is hard to discuss the topic of rule of law from the NGEU funds perspective without Hungary and Poland coming up. And this because these two nations have been engaging in some serious arm-wrestling with the EU over the past few months, blocking the funds on November 16, 2020 and triggering an institutional crisis which is still very much ongoing. This crisis has returned the issue of national sovereignty to the public eye and the political limelight, alongside the EU's aspirations for a more political union. At the same time, it has reminded many of the varying levels of democratic maturity existing within the EU and posed the question of what the EU's role in this should be.

In the case of Spain, however, the discussion today is

[66]Gros, D., Blockmans, S. & Corti, F. (16 October 2020). 'Rule of law and the Next Generation EU recovery', Centre for European Policy Studies. Available at: https://www.ceps.eu/rule-of-law-and-the-next-generation-eu-recovery/ (last accessed on February 10, 2021.

hardly about national sovereignty being questioned, as this is something that only Vox—Spain's right-wing party—talks about. By contrast, the debate in Spain—both within Spain and from Brussels—is about whether or not the rule of law is under threat and what can be done about this from the perspective of NGEU funds.

The rule of law in jeopardy in Spain. Fake or fact?

The debate around the idea that Spain's democracy is degenerating rapidly goes far beyond mere rhetoric and the discourses of political opponents to the coalition government formed by the Socialist Party and Podemos—a left-wing party which increasingly identifies as communist. There are many signs of this concern, and the recent release of The Economist's latest *Democracy Index* is a source of special interest. This shows that whilst Spain remains within the full democracy category it has seen the largest overall decline, dropping four positions since the 2019 edition, from 18th to 22nd place and from a score of 8.18/10 to 8.12/10.

Now, there are those who argue that the reasons behind this fall are extrinsic rather than intrinsic, with Covid-19 being to blame for the democratic deterioration underway in Spain and other neighbouring countries. In fact, this has truly been global with the average score of the 167 countries and territories examined dropping from 5.44 to 5.37, the largest fall in average score since The Economist began drawing up the Index in 2006.

That said, the Index's methodology is not uncontroversial and scores and rankings must be examined critically. For instance, government-imposed lockdowns, national curfews and the withdrawal of civil liberties have led to a significant drop in France's overall score and the country has dropped into the 'flawed democracy' category[67]. However, this begs the question as to why Spain's score is not even worse, as lockdowns, curfews and the withdrawal of civil liberties, together with instances of freedom of expression being denied, have all been stricter than France's[68] .

Nevertheless, despite this and various other indices, the best indicator of concern around the health of Spanish democracy and the resilience of its rule of law are the EU Commission's repeated statements on this very point. And its focus has been the increasing politisation of the Spanish judiciary and, in particular, its governing body: The General Council of the Judiciary (CGPJ in Spanish).

Ever since, months ago, PM Sánchez announced his intention of reforming the CGPJ to enable him to appoint its members with no agreement from the People's Party, the main opposition party, the European Union has followed the issue closely and pointed out that any judicial reform must be agreed with the various political actors and the Venice Commission, the Council of Europe's advisory body for legal and constitutional matters.

As a recent example, in January 2021, the European Commission released a statement of concern urging the

[67]The Economist (2021). 'Global democracy has a very bad year', Daily chart. Available at: https://www.economist.com/graphic-detail/2021/02/02/global-democracy-has-a-very-bad-year (last accessed on February 10, 2021).

[68]One example which triggered a political storm was a public statement at a press conference by the Chief of the Spanish Civil Guard, General José Manuel Santiago, who said that police work during the Covid-19 crisis was focused on the fight against hoaxes spread mainly through social networks, with the aim of minimizing a "climate critical" of the government's management of this situation.

Spanish coalition government to prevent the CGPJ from being "vulnerable to politicisation", in relation to the executive's intention to reform the judicial governing body. It also recommended that at least half the CGPJ's members be judges chosen by their own colleagues and advised against reforming current legislation to lower the parliamentary majority required to renew the CGPJ, as the current government is trying to do.

Another battlefield which is also generating great concern at the European Commission as it affects the rule of law are the various amendments to the Spanish Penal Code by which a number of the most controversial crimes are being reformed for reasons that are more political than technical. One particular example is the crime of sedition, which was of paramount importance in the trial of the political leaders who contravened the Spanish constitution and proclaimed Catalonia an independent sovereign power after a unilateral referendum on October 1, 2017. As these were found guilty of the crime of sedition, the reform proposal involving substantially lowering the prison sentences currently being put forward by the Spanish Executive would be even more beneficial than a pardon for the politicians currently in jail[69].

Finally, the latest extension of the state of emergency enacted in October 2021 prolonged this state and the extraordinary powers it gives the government until May 9 2021. This six-month extension has been much criticised by opposition parties—particularly Vox, which voted

[69]This ongoing push for reform of this crime in the Spanish Penal Code must be read within the context of the Catalan Regional Elections which took place on February 14, 2021, yet another example of the current Executive bending the rule of law and the separation of powers for political gain.

against such an extension in congress—as it significantly undermines the checks and balances enshrined by the three branches of government, especially the legislative branch, which has been increasingly overlooked and its power weakened over the past few months.

Thus the executive is meddling with the legislative and the judiciary in a rapid process that is alarming both opposition parties and Brussels, as it seriously undermines the rule of law. Needless to say, the main opposition parties to the current government—which in this parliamentary democracy means that it holds the majority in congress—have repeatedly pointed out that the rule of law in Spain is indeed currently in jeopardy. Something which, unsurprisingly, is refuted by the government, which justifies the reforms on grounds other than political interest. What is surprising, however, is that the more left-leaning side of the government—Podemos—recently pointed out that Spain is not "a full democracy", referring specifically to what is happening in the Catalan independence struggle[70] and also pointing to the degree of polarization and constant attempts to politicise the judiciary and shut down the legislative assembly, as those arguing that Spain is a perfectly good democracy with a robust rule of law defend themselves from criticism by pointing out its inadequacies whenever this suits their own political interests.

In light of this we can safely say that Spain's rule of law is currently under threat, and that the European Commis-

[70] Something which should again be seen in terms of electoral terms and political purposes.

sion is right to remind the government to abide by article 2 of the TEU and preserve and protect separation of powers. However, and specifically regarding NGEU funds, the argument in favour of the EU imposing conditions on unlocking the funds is far from being undisputed. For if Brussels must act, the question as to how remains open.

Conditionality must be handled with care

In the light of these timid or flagrant attacks on the rule of law in Spain by its own government, many argue that European institutions should indeed intervene and force its hand, playing the NGEU conditionality card. As a matter of fact, it is argued that, if the EU is to interfere in matters of national sovereignty, it should be precisely to watch over these sorts of commitments, what might be called the EU's very raison d'être as a union going beyond economic or financial agreements.

However, whilst there may be agreement over the need for the EU to intervene in such pressing circumstances, NGEU fund conditionality is much more problematic than it seems prima facie. And this because the EU's financial interests must be at risk for it to intervene in such a way, meaning that there are a number arguments making the case for the EU not necessarily tying these funds to domestic rule of law discussions. Perhaps the most important of these is that a government trying to increase its power over the appointment of judges and their careers does not unequivocally mean that the aim is to defraud the EU, but simply to use the judiciary for internal political purposes, as has been the case in Spain. In other words, "the causal link between the erosion of the rule of law and a breach of the EU's financial interests will in most cases be tenuous and therefore difficult to uphold in court"[71].

In addition to this, there are other elements urging caution in the European Commission's handling of the issue of fund conditionality. For instance, at the judicial level, it would be highly unusual, even plainly illegal, for the European Court of Justice to prevent any member state from participating in the budget. It would be absolutely entitled to impose a fine on those who do not abide by its rulings, but these are two different things.

Last, but not least, there is a worrying paradox involved in imposing penalties on those countries in which the rule of law is said to be decreasing. And the reason is that when any member state government infringes the rule of law, the price to be paid—pertaining to the NGEU funds in this case—is borne by the citizenry as a whole and, in particular, those with fewer resources and thus in greater need of this financial aid. This is true both within specific countries and between countries, as its impact would be greater if the member state whose rule of law is in jeopardy is one of the poorer countries, i.e. those which would otherwise be receiving more structural funds or NGEU transfers.

[71]Gros, D., Blockmans, S. & Corti, F. (16 October 2020). 'Rule of law and the Next Generation EU recovery', Centre for European Policy Studies. Available at: https://www.ceps.eu/rule-of-law-and-the-next-generation-eu-recovery/ (last accessed on February 10, 2021.

For this reason, some experts have pointed out that there are more efficient ways of encouraging states to abide by the rule of law. For instance, reinforcing existing instruments such as the European Public Prosecutor's Office (EPPO), which was set up by 22 of the EU27 as a form of enhanced cooperation capable of investigating, prosecuting and bringing to justice any crimes against the EU budget. However, this mechanism is not is not yet fully operational and requires extra human and financial resources if it is to achieve its goals[72].

Today, the situation is slowly being tackled, including during the last meeting of 2020, with the European Council managing to unblock the NGEU project and the budget for the next seven years by agreeing on a two-page declaration regarding the application of the rule of law mechanism. Nevertheless, whilst the NGEU path may have already been outlined the situation is nowhere near resolution, as the agreed rule of law mechanism, with all its limitations, is potentially an important step in the EU integration process long term. And this is precisely what countries such as Poland and Hungary are arguing against. As a result, the opposition of these countries to any conditionality clause has both political and ideological implications. Although Hungary and Poland are some of the main beneficiaries of European funds, and probably those that need them most, their aversion is based on a refusal to hand over more power to the EU. The governments of these countries have a minimalist vision of the EU, which conflicts with dreams of a stronger Europe.

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[72]Ibidem.

Conclusion

The situation in Spain is hardly ideal and the gains ma de by the executive branch at the expense of the other two branches of government seriously jeopardise the country's democratic quality and rule of law. In fact, anything, even the highest standard bearers of national sovereignty—i.e. Congress—or the judicial governing body—i.e. the CGPJ—seem to be seem to be up for grabs and seen in terms of political gain. The European Commission has noticed this and taken stock of the gravity of the situation, as can be seen by a number of warnings. However, its attention has been focused elsewhere. Namely, Hungary and Poland, who have been explicit in their rejection of this undercover conditionality clause by the EU institutions. Spain has done no such a thing. Quite the contrary. However, whilst it may be less visible to Brussels, the rule of law may be as endangered here as in any other country.

The rule of law, democracy and respect for fundamental rights are the foundations of the European Union and it is imperative that member states respect them, as they are crucial to mutual trust, the market and an environmentally friendly approach. However, NGEU funds being made conditional on the rule of law being respected is, at best, imperfect. For it is only enforceable when these behaviours or actions jeopardise sound financial management or the financial interests of the union. Nothing else.

As a result, as many experts claim, the current regulation are the best that can be done within the existing European Union legal framework[73]. The mechanism must be limited to defending the EU's financial interests and go no further. This also means that it could never serve as a useful instrument for the defence of the principles underlying the rule of law in general.

In other words, NGEU strategy cannot fully serve as an EU bargaining chip with which to enforce the rule of law in EU member states, because the EU must itself abide by this same principle. It is precisely the rule of law in EU institutions which prevents them from effectively making NGEU funds conditional on any further commitment by its members. Thus, the question arises, can anything else be done in this respect? And, if so, are there any mechanisms that do not push the process of European integration further? If there are not political conflict will intensify not only in some Eastern European countries but across the EU, and once again, the some people's dream of a 'more perfect Union' may lead to greater disunity.

[73]Gros. D. (17 December 2020). 'The European Council's compromise on the Rule of Law Regulation', Centre for European Policy Studies. Available at: https://www.ceps.eu/the-european-councils-compromise-on-the-rule-of-law-regulation-capitulation-to-the-forces-of-evil-or-misplaced-expectations/ (last accessed on February 11, 2021).

IV
LOCAL PERSPECTIVES AND THE ROLE OF LOCAL AUTHORITIES.

Mario Leone

Seventy years ago our founding fathers and mothers took the first courageous step to create a Union of peace and prosperity. Today is the time to write our generation's chapter to the story and take another courageous step towards a stronger Union. We owe it to future generations. Long live Europe! Ursula von der Leyen, may 2020

Paolo Gualtieri[74] underlined that successfully profiting from the Next Generation EU program, requires "an ability to execute investment projects which, as business economics teaches, strictly depends on the quality of governance. It means organizational structures and operating procedures. It implies establishing functions, roles and responsibilities precisely, clearly distinguishing executive from control ones." Furthermore, Gualtieri warns: "Execution, unlike strategic direction, cannot be delegated to politics, because it cannot be subject to the volatility of opinions and consensus, indeed it must be defended and protected by procedures, to be strictly applied, which must have as their only goal the effective execution of the investment program in the time and manner established with the EU. The issue of governance of investment projects that must be financed with EU funds is central and it is not premature to address it because, as

[74]Professor, Cattolica University of Milan. See il Sole 24 ore, 1 December 2020.

those who are professionally involved in selecting investments to finance know, evaluation of the actual ability to carry out the proposed project is a determining factor for the decision to finance it: lack of clarity on executive governance also penalizes the approval phase for obtaining the funds."

How can project planning, management of funds, construction of work and monitoring be given "continuity of conduct"?

The answer is in the first part of the *Commission Staff Working* document, which provides guidance to member states on recovery and resilience plans based on the Proposal for Regulation of the Recovery and Resilience Facility (hereafter 'the Proposal') adopted by the Commission on 28 May 2020 and taking into account the conclusions of the European Council of 17-21 July 2020[75].

As we know, according to the Proposal, the deadline for member states to submit their recovery and resilience plans by is 30 April 2021. "They may also wish to send a draft plan as from 15 October 2020", wrote the Commission: "Member States are encouraged to have informal contacts with the Commission services as early as possible when preparing the plans. Member States are also invited to discuss with the Commission the draft recovery and resilience plans together with their draft programming documents for cohesion policy, including REACT-EU and the Just Transition Fund".

[75]"It takes into account the co-legislators' latest discussions on the proposal and will therefore be updated when necessary, particularly once the co-legislators reach an agreement on the Regulation. The document reflects in particular the scope and objectives of the Proposal (Articles 3 and 4), the structure of the recovery and resilience plans (Article 15) and the corresponding assessment criteria in Article 16 and Annex II. The guidance is intended to help Member States prepare and present their recovery and resilience plans in a coherent way and is without prejudice to the ongoing negotiations on the Proposal in the European Parliament and the Council"; https://ec.europa.eu/info/sites/info/files/3_en_document_travail_service_part1_v3_en_0.pdf.

The working document schedules the institutional structure and decision-making process.

Member states are invited to describe the institutional nature of their plans, as well as the role played by their national and regional parliaments, other regional and local authorities, and national advisory bodies such as national fiscal boards and national productivity boards in the decision process leading up to the adoption/submission of their recovery and resilience plans. Member states are also invited to describe any consultation and contributions made by social partners, civil society and other relevant stakeholders in the drafting and implementation of the recovery and resilience plan.

As we have seen, and the Commission working paper underlines, administrative arrangements must be encompassed within national plans. "To ensure effective implementation, clear responsibilities need to be established". A lead ministry/authority should be nominated with overall responsibility for the recovery and resilience plans to act as the single point of contact for the Commission ('coordinator'). Coordinators are to be responsible for the implementation of the recovery and resilience plans, ensuring coordination with other relevant ministries at national level (including ensuring coherence regarding the use of other EU funds), monitoring progress on milestones and targets, overseeing and – where appropriate – implementing monitoring and auditing measures and reporting on them (Article 20 of the Proposal) and requesting payment of financial contributions and, where relevant, loan instalments (Article 19 of the Proposal). A Recovery and Resilience Plan needs to outline that the coordinator has the (i) necessary administrative capacity in terms of human resources (staff numbers and profiles), institutional experience and expertise, and (ii) the mandate and authority to exercise all relevant powers. If a responsible authority (i.e. ministry or agency) is defined at the component level, all appropriate information needs to be provided as well. In addition, both coordination structure and reporting responsibilities to the coordinator should be clearly described[76].

It should further be underlined that the Commission's guidelines also indicate pre-availability to member states potentially requesting technical help under the support mechanism to implement their recovery and resilience plans or part of them, including where satisfying "milestones" and objectives is concerned. Requests for technical support must be submitted to the European Commission through the aforementioned National Coordination Authority. This "authority" is obviously essential to ensuring a certain degree of autonomy from the government policy "variable".

Italy's governance issue was raised clearly on October 6, 2020, at the Confcooperative assembly. Referring to the Italian Recovery Plan, Prime Minister, Giuseppe Conte[77] stated: "We have identified some major areas of intervention for each mission, with clearly monitored deadlines and objectives for each individual project initiative. And we will set up an ad hoc struc-

[76] pp. 33-34 part 1.
[77] Prime Minister Giuseppe Conte handed in his resignation to President Mattarella on January 26, 2021.

ture for the implementation of the Plan, which has clear and incisive powers of intervention to ensure the implementation of the projects on schedule. The whole government, however, has no intention of operating on its own (...). We want all the best energies in the country involved in this Plan. (…) The Plan is by no means government property: the plan is a common good, it belongs to the nation (...)." At a subsequent press conference, the Prime Minister responded in the same way, but also added that "on Monday 7, December 2020, there will be a meeting of ministers regarding the merits of decisions".

A few days earlier, in a conversation with the deputy director of Corriere della Sera, Daniele Manca, at the Economy Talk organized by the RCS Academy Business School, Minister for European Affairs, Enzo Amendola, said: "In the coming days the Council will send out an update note on the plan guidelines (national recovery, ed): guidelines, plans, priorities which we want Parliament to follow step by step" to access Next Generation EU resources. Economics Minister Gualtieri further reiterated this principle at the 2020 Rome Investment Forum, Febaf, noting that the setting up of a control room for the management of funds was imminent[78].

Following the government's presentation to the houses of parliament of the guidelines drawn up after "enquiries" by the Technical Evaluation Committee (CTV), since the end of July 2020, after the meeting of the Interministerial Committee for European Affairs

[78]https://www.ilsole24ore.com/art/amendola-piano-e-cabina-regia-pronti-confronto-ADOTPY7, 11 December 2020; https://www.ilmessaggero.it/politica/recovery_cabina_di_regia_conte_gualtieri_diretta_cosa_ha_detto_rome_investment_forum_ultima_ora_14_dicembre_2020-5644386.html, 14 dicembre 2020.

(CIAE) of 28 July, Sergio Fabbrini (in Il Sole 24 ore, 4 October 2020) highlighted Italy's difficulty in managing a "narrow parliamentary majority [...] (especially in the Senate assembly). On European issues (such as the use of ESM funds) it is divided and, above all, it is a minority in the country", at the beginning of October, as we know from some polls. We must, therefore, agree with Fabbrini, given the timing of the project sheets to be presented in Brussels and the potential for structuring a definitive plan by April 2021, that it is "reasonable to assume that, in 2023, a different majority could be elected" and managing the funds coming in will not be bound up with the current legislature and, consequently, this government.

As Giovanni Tria has noted in some articles published in the newspaper Il Sole 24 ore[79], the National Recovery and Resilience Plan implies "choices that will shape the future" and "cannot be conditioned by contingent and partisan political interests", calling for a "National Recovery Plan Unit" which "means sharing in the elaboration process, in the choices related to the structures required to manage it technically and in its final decisions". Tria affirmed: "The reason we cannot accept another path is not a matter of more or less controversial observations on delays in presentation, but of committing the country to a structural investment plan that will be implemented over a period of time going beyond the jurisdiction of the current government."

In December 2020 the Italian government attempted

[79]For a more in-depth intervention see Il Sole 24 del september 12, 2020: https://www.fondazioneluigieinaudi.it/giovanni-tria-recovery-fund-linee-guida-ma-per-chi/

to solve this governance problem by proposing the introduction of a specific mechanism in which each mission would be entrusted to a "manager" with commissioner-like powers, supported by a specific technical structure and political control would be assigned to a steering committee, made up of the Prime Minister, the Minister for the Economy and the Minister for Economic Development, while the Minister for European Affairs would be the sole point of contact (as provided for in the Commission's guidelines), at European level, for the implementation of the plan.

Massimo Bordignon[80] observed that "the problem with this pyramid structure is that it takes responsibility away from the expenditure departments whose normal activities fall within those envisaged by the NRP. If these do not deal with the implementation of the Plan, it is not clear what these ministers will be doing over the next five years. It is an aspect on which greater coordination must be set out". The last issue – and perhaps the most crucial one – is that the plan will be implemented over the next five years, and Bordignon also observed that in this period Italy can be expected to have three or four different governments, probably of different political orientations. Bordignon concluded with a warning: "If you do not want everything to be called into question at every political upheaval, the PNRR must be discussed – and maximum consensus found – not only across the political parties, but also, more generally, across society and among social forces."

[80]Next Generation EU: Italy's Plan, La Voce 8/12/2020: https://sep.luiss.it/it/news/2020/12/10/next-generation-eu-italy%E2%80%99s-plan-%E2%80%93-massimo-bordignon-%E2%80%93-la-voce

A noteworthy proposal was presented just outside the institutional context by the Association of Italian joint-stock companies (Assonime) in a report[81] drawn up in December 2020. Thus far the issue of the organizational model to be chosen has been a matter of priority to Fondazione La Malfa and very few others, and we were told that the model had already been identified and decided upon: the Committee for European Affairs (CIAE). Indeed, it was suggested that preparations for the Italian plan were already well under way and that the country would be one of the first in Europe to be ready.

Then the CIAE exited centre stage and, for some weeks, no further mention was made of it. Suddenly the main player became the Finance Ministry. But then the Prime Minister, Mr Conte, announced in early October that an organization would be put in place to govern the Italian plan, and then enshrined in law. When this provision was formalized in an article set out in the 2021 Budget Law, it was highlighted that it purported to cover only the control and monitoring phases of the investments, and that the planning and execution phases had once again been assigned to the public administration. But no mention was made as to who was entitled to submit the projects, how the effectiveness of the programmes would be measured, and how and where the choice as to which projects would be accepted and which rejected would be made.

In the space of just a few days, the government realized that the Budget Law provision posed a whole host

[81]Next Generation EU. A Proposal for Italy's Plan: http://www.assonime.it/Stampa/Documents/Next%20Generation_COMPLETO.pdf , pp. 12-18.

of questions to which answers were not readily available. At a meeting of the parliamentary majority held on November 28, 2020, the government's position appeared to have shifted further. Now the talk was no longer of just the CIAE, but of two rather than one decision-making centres, one the Presidency for the Council of Ministers, the other the CIAE, plus a series of commissioner-managers to be responsible for implementing the investment projects in the six large sectors listed by the government in October, in line with general guidance from Europe. But which projects? To be submitted by which administrations? Only central government, or the regional governments as well? Only by public sector entities or by private ones too? Are the projects to be selected on the basis of economic or political considerations? If economic, what criteria will the choices be based on and by which public administration body?

As far as the institutional architecture for the governance of Next Generation EU funds rather than building a separate administration or new commissioners issue is concerned, "this requires creating a structure capable of leveraging the administrative capacities existing at every level of the public administration, strengthening them and putting them in a position to express themselves to the best of their abilities. This certainly requires a coordination center, as has already been foreseen".

Assonime has identified a Minister for the Italian Recovery plan with a strong technical secretariat, at the

Prime Minister's office: "within each central administration and each region, municipality and other body involved in the implementation of the Plan, a high-caliber PNRR manager with a strong incentive to produce results needs to be identified. The administrative duties and responsibilities must also be well defined in an ad hoc provision by the Prime Minister, reducing the danger of conflicts between levels of government and bureaucratic apparatuses and uncertainties that would jeopardise the effectiveness of action".

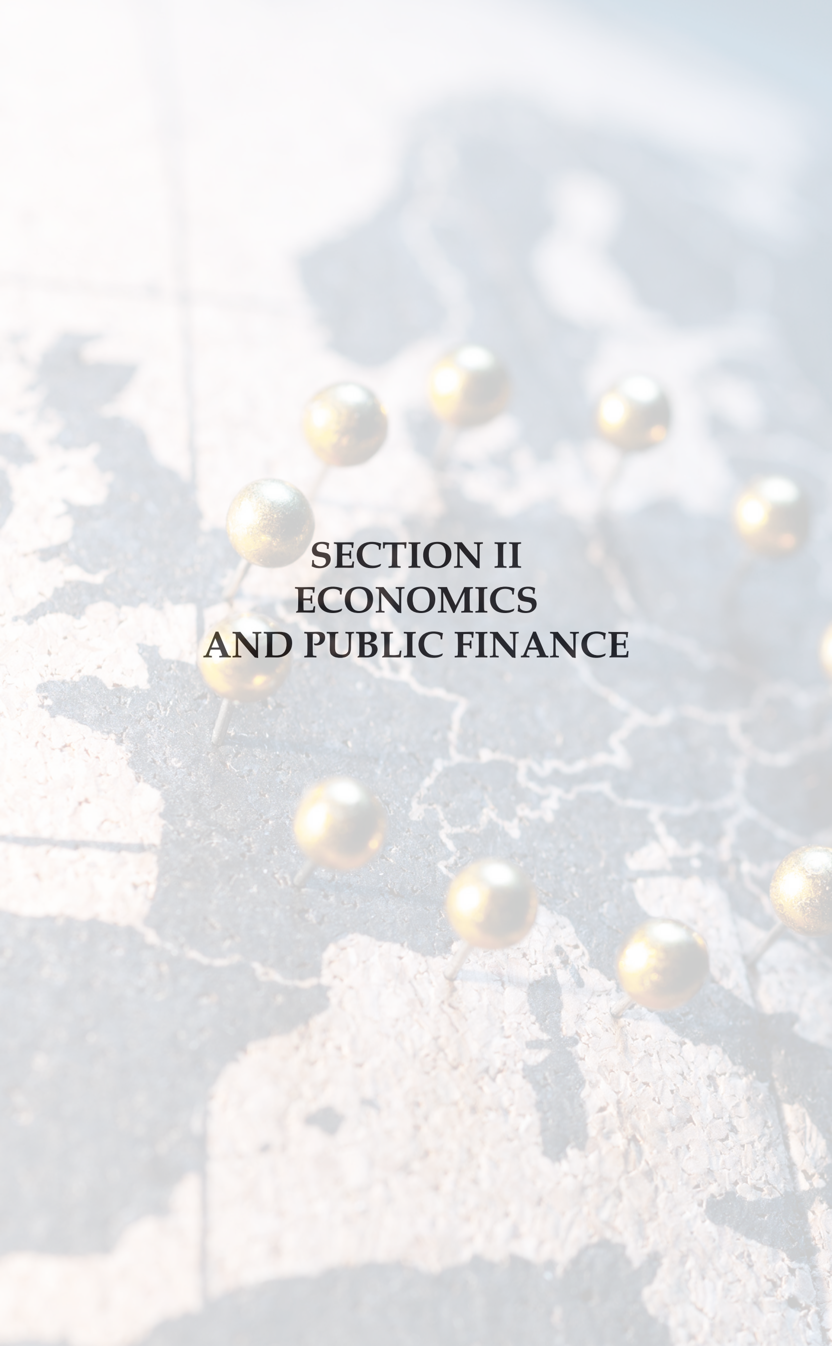
Another authoritative position was taken by Luigi Paganetto[82], exponent of the "Group of 20 - Revitalizing anaemic Europe" who noted that the challenge is not only to prepare a coordinated set of projects (rather than a mere list), but also to be ready to manage them. This requires adequately preparing and equipping our public administration with suitable skills and human and financial resources. This may be a project within a project. And it would be all the more necessary if the conditions envisaged by the Commission were, as is possible, differentiated between those regarding overall reforms – such as those of public administration, education and justice – and those regarding public investment in large-scale infrastructure projects. In all cases, what is needed is ad hoc skills, as well as an institution capable of conducting the necessary analyses and developing an overall strategic framework. These are tasks which were, in the past, the task of the National Programming Committee at the department responsible for the budget and, as regards the South, by the *Cassa per il Mezzogiorno*.

[82]"Next generation EU, Governance Progetti di investimento": http://www.fondazionetorvergataeconomia.it/wp-content/uploads/2020/09/Next-Generation-EU-Governance-e-progetti-dinvestimento_def.pdf

As has recently been argued by Professor Sabino Cassese[83], a basic choice has to be made in preparing the plan between two different ways of organising the spending of the funds. "We can either decide to hand the money over to central and local public administrations, distributing the funds on the basis of the projects which each of them submits, and so allocating the resources via many different channels, each of which uses its own methods with all the difficulties in terms of functioning with which we are all too sadly familiar. Or alternatively, we may decide that the stakes are simply too high to risk wasting the resources and thus we need to create a proper hub to give impetus to the project, with responsibility for proposing a coordinated set of projects and managing their implementation directly, while liaising with and reporting back to the European institutions on an ongoing basis. It is hard to argue that the first solution would be an adequate one, even if it were accompanied by the creation of a "task force" vested with powers required to guarantee the quality of the projects and to ensure that the commitments entered into are met with absolute rigour. There have been various indications by the government as to the role and powers of a task force. At first, a monitoring task only was envisaged. Subsequently, it was suggested that it would have the power to coordinate the plan's investment activities. Thirdly, it was indicated that it was also to cooperate in drawing up the plan. Finally, the government has returned to its initial idea that its job description is to be monitoring the implementation of the plan.

[83]Ugo La Malfa Foundation, Next Generation. EU Proposal for Italian Plan, pp. 68-73

Is logical that the United States should do whatever its able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.
George Catlett Marshall, Secretary of State in the Truman administration, on July 5, 1947 at Harvard University.



SECTION II
ECONOMICS
AND PUBLIC FINANCE

V
IS FRUGAL TRULY FRUGAL? A LIBERAL PERSPECTIVE ON SOLIDARITY AND FAIR REDISTRIBUTION IN THE EU

Maartje Schulz

Solidarity (or, some would say, the lack of it) between northern and southern European countries has been a hot topic this past year. It is not a new debate. We all remember the Eurozone crisis discussions. This article will not go back over this debate. However, the article's discussion of the Next Generation EU Fund – a tool designed to mitigate and aid recovery from the Coronacrisis – requires outlining some of the more recent financial help and solidarity debates triggered by the Coronavirus crisis.

Tensions arose during the first phases of the COVID-19 crisis. Countries such as Italy, Spain, Portugal, France and Ireland called on other EU countries to share fiscal burdens by issuing shared debt in the form of Eurobonds or Coronabonds, meaning that countries such as the Netherlands would be responsible for the debts of other countries. Our Dutch minister of finance, Wopke Hoekstra, rejected these plans firmly and made himself somewhat unpopular in other EU countries by doing so. He expressed the Dutch cabinet's position that only money that is immediately needed to provide medical care could be transferred without conditions attached. He also insisted that money from the

European Stability Mechanism (ESM) used for economic recovery should not be unconditional. 'I think it is reasonable and sensible that providing money goes hand in hand with reforms and agreements', he stated[84].

Some southern countries disagreed with this stance and expressed disappointment and anger regarding this strictness at a time of crisis. The situation escalated at a video meeting, when Hoekstra reportedly proposed that the European Commission investigate why some countries had insufficient financial buffers with which to manage the economic impact of the crisis. 'That statement is repugnant in the framework of the European Union. And that's exactly the right expression for it – repugnant', the Portuguese Prime Minister António Costa declared[85].

Politico decided to label Hoekstra 'Europe's bond villain'.[86] Hoekstra later reflected that he could have shown more empathy in his statements regarding these matters during the first peak of the Coronacrisis[87]. Hoekstra's tough stance on fiscal discipline reminded some of the former Dutch finance minister and chairman of the Eurogroup Jeroen Dijsselbloem who, in 2017, infamously implied that southern Europeans waste money on 'drinks and women', while simultaneously holding out their hands for help. Dijsselbloem argued: 'I attribute exceptional importance to solidarity. [But] you also have obligations.'[88]

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[84]Laurens Kok (7 April 2020), 'Kamer steunt Hoekstra in verzet tegen eurobonds', AD, https://www.ad.nl/politiek/kamer-steunt-hoekstra-in-verzet-tegen-eurobonds~a622e58d/ (accessed 17 February 2021).

[85]Hans von der Burchard, Ivo Oliveria and Eline Schaart, 'Dutch try to calm north-south economic storm over coronavirus', Politico, 27 March 2020, https://www.politico.eu/article/netherlands-try-to-calm-storm-over-repugnant-finance-ministers-comments/, (accessed 17 February 2021).

[87]Eline Schaart, 'Dutch finance minister acknowledges lack of empathy on corona bonds', Politico, 31 March 2020, https://www.politico.eu/article/dutch-finance-minister-acknowledges-lack-of-empathy-on-corona-bonds/, (accessed 17 February 2021).

[88]Silvia Amaro, 'Dijsselbloem under fire after saying southern Europe wasted money on 'drinks and women', CNBC, 22 March 2017, https://www.cnbc.com/2017/03/22/dijsselbloem-under-fire-after-saying-southern-europe-wasted-money-on-drinks-and-women.html, (accessed 17 February 2021).

The Netherlands, Denmark, Sweden and Austria were described as the European Union's 'frugal four' in Coronacrisis financial dealings. The argument was that they showed insufficient solidarity towards the EU's southern countries, prioritizing financial restraint and rigorous conditions for financial assistance, instead of simply supporting their fellow European countries at a time of crisis.

The group of countries frequently referred to as the frugal four prefer to be viewed as the responsible four. Austria's Chancellor, Sebastian Kurz, wrote a piece in the Financial Times explaining their position. Kurz claimed that 'the responsible approach' is in the interest of our taxpayers: 'We have been dubbed the "frugal four" and I and my fellow leaders want to set the record straight. Being "frugal" does not mean that we are any less committed to the EU than those member states who are arguing for an expanded budget. On the contrary, our commitment to the EU is as strong as ever. The success of the European project is measured by our ability to deliver on our political ambitions and achieve tangible results for our citizens — not by the size of the budget.'[89] Malik Azmani, the VVD's leader in the European Parliament, also noted, in another Financial Times article, that the 'frugality' versus 'solidarity' debate was a 'false contradiction'. He explained: 'Making sure we spend our taxpayers' money wisely whilst finding a way out of this crisis together is showing the kind of solidarity that we need to recover in a sustainable way.'[90]

[89]Sebastian Kurz, The 'frugal four' advocate a responsible EU budget', Financial Times, 16 February 2020, https://www.ft.com/content/7faae690-4e65-11ea-95a0-43d18ec715f5, (accessed 17 February 2021).
[90]Mehreen Khan, 'Frugal four' chief Mark Rutte leads opposition to EU recovery plan, Financial Times, 18 June 2020, https://www.ft.com/content/8e30fd89-4958-491e-9f30-8c0b5f8b4cef, (accessed 17 February 2021).

In the aforementioned Financial Times opinion piece, Kurz made the point that solidarity is not an inexhaustible principle. 'For decades, Brussels has recognized that some countries make up for a disproportionate share of the EU's financing. But the European Commission is proposing to let this system of rebates run out. That means our four countries plus Germany would end up financing 75 per cent of net payments to the EU budget. We are ready to pay significantly more to the EU than we get back. We benefit greatly from being a member of the EU and the single market. However, there are limits.'[91]

These prior discussions highlight some divergent views about (financial) solidarity and the importance of this principle as compared to other principles. Before we get into the specifics of the Next Generation EU Fund and the Dutch liberal view on it, we will first analyze what solidarity truly means in liberal thought.

What solidarity truly means to a liberal

In 2016, the Telders Foundation (i.e. in Dutch: de TeldersStichting), the Dutch liberal think tank affiliated to the VVD political party, published a magazine regarding solidarity.[92] It specifically discussed the (classical) liberal view on solidarity. A column by the director of the *Telders Foundation*, Patrick van Schie, made clear that true solidarity comes from the people themselves in liberal terms. 'Solidarity is spontaneous', he wrote. This is in line with classical liberal thinkers, such as Frédéric Bastiat, who argued that enforcing solidari-

[91]Sebastian Kurz, 'The 'frugal four' advocate a responsible EU budget', Financial Times, 16 February 2020, https://www.ft.com/content/7faae690-4e65-11ea-95a0-43d18ec715f5, (accessed 17 February 2021).
[92]TeldersStichting, 'Solidariteit', Liberaal Journaal, https://uploads-ssl.webflow.com/5f9a8077cac9ed76cf1eac01/5f9fbc0138e0ce2ad28b7fa0_liberaal-journaal-ts-2016-solidariteit-1.pdf, (accessed 17 February 2021).

ty actually means killing solidarity. According to Van Schie, it is up to individuals to decide to show solidarity, and if so, to whom. In other words, individuals can also decide to show no solidarity to certain groups or individuals. From a liberal point of view, it can thus be argued that solidarity is not something that can be imposed from above.

A researcher at the *Telders Foundation*, Fleur de Beaufort, made the same point in another column in the same magazine, arguing that solidarity is voluntary in contact between people. De Beaufort concluded that solidarity, defined as people looking out for one other and a willingness to do something for others without immediately expecting anything in return, is always bottom up. She also emphasized that solidarity has traditionally been viewed by liberals as an individual rather than a collective virtue embodied by the state. This raises some interesting philosophical questions, such as whether it is truly possible for a country (as opposed to individuals) to show solidarity to other countries.

If we apply the abovementioned classical liberal logic of solidarity in terms of voluntariness to the discussions about financial assistance and redistribution within the EU, it can be concluded that the EU cannot for example force Dutch citizens to feel more compelled to provide financial aid to other countries in excess of what is already provided. Of course, that does not mean that there is zero care or solidarity towards fellow Europeans. It does mean that there is a limit to solidarity and that this should not be imposed from above (i.e. the EU), beyond a point that is unnatural.

Another point to consider when thinking about solidarity, in general and as regards the EU and its financial and political integration specifically, is proximity and similarity. Some liberal thinkers have thought of this as a necessary pre-condition for solidarity. As Austrian-British economist and philosopher, Friedrich von Hayek, wrote in his book The Fatal Conceit: The Errors of Socialism: ‘Cooperation, like solidarity, presupposes a large measure of agreement on ends as well as on methods employed in their pursuit. It makes sense in a small group whose members share particular habits, knowledge and beliefs about possibilities.’[93] And the American philosopher Richard Rorty claimed that ‘our sense of solidarity is strongest when those with whom solidarity is expressed are thought of as “one of us”, where “us” means something smaller and more local than the human race.’[94]

In other words, a sense of solidarity is more likely to come to the fore in a smaller setting, amongst people sharing the same customs, habits and language. Whether we like it or not, for most people it is still easier to be compassionate with neighbors and friends within one’s own country than to show solidarity to a somewhat abstract idea of people living in another European country. A stronger sense of European identity, and thereby solidarity, may develop naturally and gradually over time, but ideas such as ‘ever closer union’ – including the increasing enforced financial burden

[93] F. von Hayek (1988), The Fatal Conceit: The Errors of Socialism, Chicago.
[94] R. Rorty, Contingency (1989), Irony and Solidarity, Cambridge, pp. 190 – 191.

sharing that comes with it – should not be imposed from above. It is no secret that our prime minister and leader of the liberal political party, VVD, is not a fan of this terminology blueprint, namely ever closer union. Solidarity cannot be forced in a great political and economic integration leap forward. The reality is that whilst the European Union, does indeed have some supranational power, is still a union of sovereign nation states acting – at least to some extent – in their own best interests. Complete solidarity, if it is to be interpreted as continuous wealth distribution from the financially strong to the financially less strong (as we have seen, this is not necessarily the liberal definition of solidarity), is therefore unrealistic and cannot reasonably be expected.

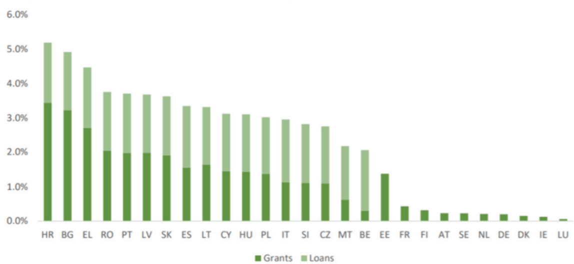
Moreover, solidarity is just one of the principles decisions can potentially be based upon. For liberals it is definitely not the only one, and neither is it necessarily the most important value. Individual freedom and responsibility are the core of the liberal intellectual tradition and have greater weight within it than the solidarity principle. In this European context, where financial instruments are concerned, fiscal responsibility is a value of great importance.

For liberals, solidarity has to be accompanied by a strong sense of responsibility. Relationships are a two-way-street. When money is transferred, its recipient has to be very mindful of the fact that the money has come from others. Whether countries are willing to help out other European countries in need is not the only morally relevant issue at stake. Another is how these net-paying countries handle the money received. Moreover, from a liberal perspective, which emphasizes the principles of responsibility and self-reliance, it is in everybody's interests that all countries are at least minimally capable of managing their own affairs. Otherwise, financial assistance may backfire. Spending resources provided by other entities too easily may undermine solidarity and social cohesion between societies. It is precisely because collective resources are provided by citizens themselves – and so the government is in fact spending 'someone else's money' – that it is of the utmost importance that care is taken over this issue.

Next Generation EU Fund

The search for a balance between helping others out and ensuring that the important principle of responsibility is respected, is also important in Next Generation EU terms. This new EU fund is a temporary stimulus package that will hopefully contribute to curbing the harmful effects of the pandemic and jumpstarting Europe's recovery. It is, however, a large and far reaching agreement which will give the EU the power to borrow 750 billion in financial markets and hand it out as budgetary support to member states. It will raise money by temporarily lifting the own resources ceiling to 2.00% of EU Gross National Income, allowing the Commission to borrow this significant sum of money on the financial markets. This funding will be channeled through EU programs and repaid over a long period of time via future EU budgets – not before 2028 and not after 2058. The Commission also proposed a number of new own resources, such as a digital tax on companies with a global annual turnover of above 750 million euro which is expected to generate up to 1.3 billion euro per year.[95] Southern and central-eastern European countries will be the biggest beneficiaries of financial support, in contrast, for example, to the Netherlands (see also Figure 1).[96] About 390 billion of this sum will be distributed in the form of grants, with the remainder taking the form of loans to facilitate member state recovery.

Figure 1. Annualised NGEU loans and grants support per member state (% GDP 2021)



Source: Cinzia Alcidi, Daniel Gros and Francesco Corti, 'Who will really benefit from the Next Generation EU funds?', CEPS Policy Insight, October 2020.

Net-paying countries – the Netherlands, Denmark, Sweden, Finland, and Austria – tried to ensure greater efficiency and reciprocity in the resulting EU summit, emphasizing that what this crisis demands is not greater redistribution and monetary handouts, but greater

[95]European Commission, 'Europe's moment: Repair and prepare for the next generation', https://ec.europa.eu/commission/presscorner/detail/en/IP_20_940, Press release, 27 May 2020, (accessed 17 February 2021).
[96]Cinzia Alcidi, Daniel Gros and Francesco Corti, 'Who will really benefit from the Next Generation EU funds?', CEPS Policy Insight, October 2020.

fiscal responsibility and real commitment to reforming Europe's economy, making it a pro-trade, pro-sustainability and pro-innovation marketplace.[97] They expressed fears of debt collectivization normalization and asserted that stability-oriented reforms must remain high up on the agenda. Ultimately some concessions were made: the grants were reduced from 500 billion euro to 390 billion euro and conditionality was incorporated into funding, with member states being able to monitor whether net-paying countries actually implement reforms. This latter system, a demand which came from Dutch liberal Prime Minister Mark Rutte, will allow any national government to temporarily block Brussels' financial transfers to a given country until EU leaders review whether commitments are really being honored.[98]

Recommendations

Moving forward on the issue of fiscal responsibility in the EU financial funding context, in line with the principled discussion outlined earlier, the VVD's priorities are the following:

• Member States are expected to abide by the rules of the game. This applies to the rule of law and democratic values as well as to national budgets. For us, agreement that the Dutch contribution to the EU budget will not increase in the coming years was important. We are glad that the European Union is allocating more money to priorities such as security, migration and climate, and that there will be options to withhold

[97] As Barbara Kolm, President of the Friedrich A. v. Hayek Institute in Vienna and Director of the Austrian Economics Center, analyzed and worded it well in this article in The Economic Standard: https://theeconomicstandard.com/europe-needs-the-frugal-5-now-more-than-ever/, (accessed 17 February 2021).

[98] Jim Brunsden, Sam Fleming and Mehreen Khan, 'EU recovery fund: how the plan will work', 21 July 2020, https://www.ft.com/content/2b69c9c4-2ea4-4635-9d8a-1b67852c0322, (accessed 17 February 2021).

subsidies from the multi-year budget and the recovery fund if member states flout the rule of law. We remain committed to making the European Union more effective. After all, membership of a strong union is crucial to Dutch security and prosperity.

• We want to continue to avoid the European Union becoming a transfer union and oppose new European instruments which economically weaker member states can use to bypass necessary reforms.
• A return to fiscal rules once the Coronacrisis is over. We believe that sufficient enforcement, automatically applying sanctions when member states breach budgetary commitments, is desirable, with unanimous decision being the only way to stop sanctions.
• Discontinuation of funding to Eurozone member states which structurally fail to comply with fiscal rules. To prevent member states from getting into this situation, we want the European multiannual budget to place greater emphasis on making all economies in the Union more competitive, by increasing the linkage between payments and reforms.
• Further modernization of the European multi-annual budget to meet the challenges of our time. This includes more expenditure on (digital) security, research and innovation, digitization, artificial intelligence, sustainability, the economy and migration, and less money for member states failing to keep to agreements. We view the recovery fund as a temporary measure that should not be extended. Contributions from this fund should remain linked to reforms, as was agreed.

VI
A EUROPEAN PROGRAM TO ADDRESS THE ITALIAN STRUCTURAL DECLINE

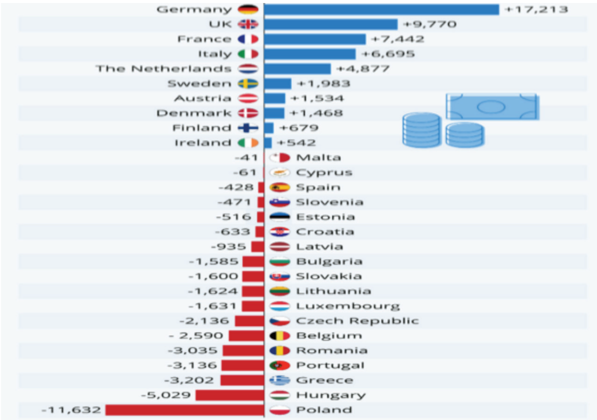
Roberto Ricciuti

The Next Generation EU program is a temporary fiscal measure proposed by the EU Commission as a way of funding European economic recovery after the Covid-19 pandemic. The program is a mixture of loans and grants from the EU to member states. In turn, the EU will issue bonds to fund these transfers and design some common sources of taxation to be used to repay its debt.

This is the first time the EU has provided a fiscal pillar alongside the monetary pillar represented by the European Central Bank. It is a first step to "complete monetary union"[99], designed to build a common budget allowing the EU to collectively absorb macroeconomic shocks. The fact that when a crisis, such as the Great Recession of 2008 or the Covid-19 economic fallout last year, occurs doubt is cast on the very existence of the European Monetary Union is a serious issue that needs to be resolved once and for all. It puts the whole European project in jeopardy by reducing public respect for it and making policy choices more difficult[100]
Italy is the main beneficiary of the Next Generation EU program, since it is expected to receive €209 billion out of a total of €750 billion, made up of €82 billion in grants and €127 in loans. As we can see from Figure 1,

[99] P. De Grauwe, Economics of the Monetary Union, Oxford University Press.
[100] The form to be taken by the institutions that will manage the common fiscal policy and the relationship between the EU budget and national budgets are beyond the scope of this chapter.

Italy is one of the main net contributors to the EU budget after Germany, the UK and France and before the small northern countries. Net beneficiaries are typically southern and eastern member states.



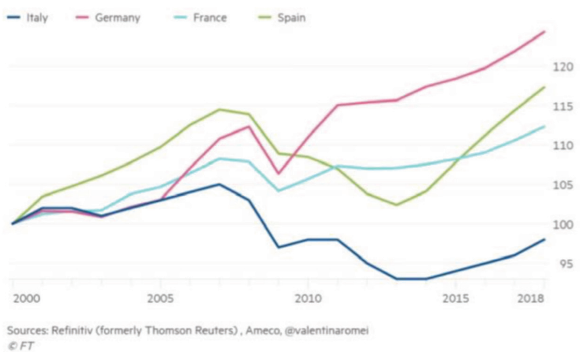
Source: Statista. Data in millions of euros.

With this policy intervention, Italy will move from being a net contributor to a net beneficiary. Some political leaders have hailed this as long overdue and hope that this will be the Italian budgetary position in the years to come[101].

The Italian pattern is unique, showing low growth in the first five years of the new century, on a par with Germany, although the latter showed strong growth until the Great Recession. All countries experienced a marked fall after 2008 but, unlike Germany and France which rebounded quite fast, Italy and Spain experien-

[101] This was the opinion of the two deputy PMs in the first Conte government who are now both part of the new pro-EU government.

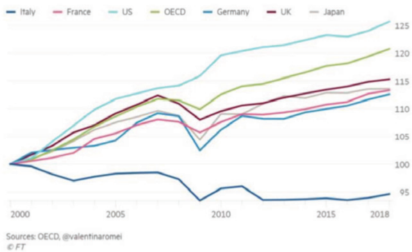
ced a second recession coinciding with the public debt crisis that hit peripheral European countries. However, in contrast to Spain, Italy was not able to embark on a new phase of pronounced growth and is the only country which, in 2018, not only had not returned to its pre-Great Recession income level, but whose GDP was also below its 2000 level. This data makes clear that the Italian crisis is structural and not cyclical, i.e., related to Covid-19, although this did indeed prompt an 8.8% fall in GDP in 2020.



GDP per capita in various European economies (constant, base 2000 = 100)

This negative performance mirrors negative labor productivity dynamics. Of the countries in Figure 3, Italy is the only one showing a consistent decline over time. What are the sources of this disappointing performance? Several can be cited: firm size, education and innovation.

Figure 4 shows a significant difference in labor productivity between small and medium/large firms. Given Italy's huge number of small firms, it is not surprising that this drives down overall labor productivity.



Note: Value added per employee by size of firm, at current purchasing power parity, '000$, 2015

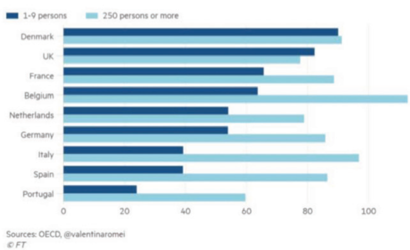


Figure 4 – Labor productivity in small and large firms

Education is the second reason for low productivity: the percentage of young people with tertiary education in Italy is very low (figure 5) and secondary education is now better, with the average performance of 15-year old students in reading, science and mathematics being below the OECD average, and well below the top European performers, not to mention the well-known world education powerhouses (Figure 6).

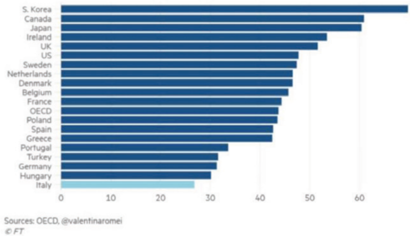


Figure 5 – Percentage of 25-34 year-olds with tertiary education, 2017

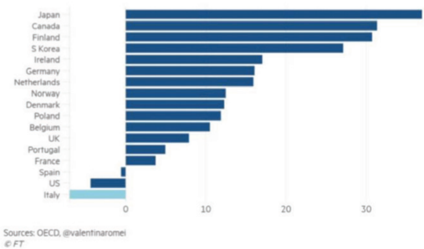


Figure 6 – School performance of 15-years old students

Note: average of reading, science and math, difference from OECD average, 2015

NEXT GENERATION EU

Finally, Italian performance in innovation can be gauged from Figure 7. Italy is a "moderate innovator", lagging behind large European countries and the top innovators, typically northern European. Its performance has slightly improved over the last few years (2012 and 2018 are also shown in the graph), but its relative position is steady over time.

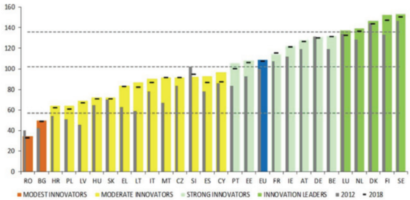


Figure 7 – European Innovation Scoreboard 2020
Source: European Commission

These three factors are intertwined: small firms – mostly specialized in traditional sectors – are not strong enough to innovate and hire university graduates, making for low productivity. In turn, large firms and the government spend less than half the European average on research and development, putting the lid on innovation. There are relatively few patents, and companies are not willing to use them in production. The wage premium for university graduates is one of the lowest of the developed countries and young people are thus not incentivized to pursue further education. The current features of the Italian economy stop it from being competitive in an international environment based on knowledge, digitalization and globalization[102]. Of course, the state cannot (and should not) force small firms to expand, hire university graduates and invest in innovation by decree. But it can set the stage for an increase in the innovation activity in a broad sense. Here Next Generation EU funds can play a part, as long as they are not spread over a large number of small projects designed more to sustain the income of certain groups than to address the structural problems facing the economy in the last twenty years. The recent change in government is a first step in the development of a National Plan for Recovery and Resiliency that is fit for purpose[103].

If Italy fails to take up this opportunity, it will have a large debt to repay, expected to be 158.5% of GDP in 2021 and a growth rate which is too low for this to be sustainable. These circumstances mean a future of "mezzogiornification" for Italy, that is its shift from a net contributor to a structural net beneficiary, exactly as has happened for its southern regions (Mezzogiorno), which contribute about a quarter to overall production and account for about a third of total consumption, the difference made up by transfers from high-income regions in the north. Politically, this will be a very difficult situation to sustain for other countries transferring grants to Italy, but its size and relevance may support this equilibrium. Clearly, this is a blow to the country's political standing – as one of the six founding members of the European Economic Community – and the whole European project may be weaker for it.

[102]There is a set of extremely competitive firms working in mechanics, pharmaceutical, textile and garments, often refereed as "pocket-size multinationals", but there are not enough of them to sustain a population of 60 million.
[103]An interesting change is the renewed emphasis the new prime minister Mario Draghi has given to higher technical education, that is two years of further studies after high school, equivalent to the German *Fachoberschule.*

VII
MONEY IS NOT EVERYTHING, “BUT”: ECONOMIC ASPECTS OF RECOVERY IN POLAND

Bartlomiej Gabrys

On the basis of the cornerstones proposed by the EU for the NextGenerationEU fund, it would seem to be crucial to take a more in-depth look at the processes behind them. The EU focus is now clear, as is the direction a new stream of financial support is moving in. This could work both ways, strengthening those activities which are in the same vein or somehow posing a question: what does the future hold for unsupported economic sectors? Utilizing the available data concerning economic conditions in Poland my intention here is to attempt to answer these questions. The first part of the paper points to the political reasoning behind the economic aspects of the program. Secondly, it will discuss the Polish economy’s strengths and weaknesses at this time of the pandemic. The third part, followed by conclusions, will set out the potential economic responses to the fund.

The liberal way of thinking – does the Next Generation EU program follow this path?

Nowadays many economists consider the liberal (especially neoliberal) way of thinking to be the main source of many crises[104]. This was the case for many publicly expressed reasons behind the 2007-2008 crisis, but how does it work with the COVID pandemic? It is viable that the role of the state is getting more and more attention from the EU. For the first time, the EU has decided to "take out a loan" on the market, mainly for the new NextGenerationEU fund. An explanation for this is rooted in the concept that it is national governments who know best what their economies truly need to recover from the pandemic and its aftermath. This somehow comes across as contrary to the liberal way of thinking, because it detaches entrepreneurs, open markets, and free will from the decision-making process, at least to some extent. On the other hand, the Polish Prime Minister has just called for urgent discussion and consultancy on how the flow of relatively unexpected and barely planned money should be directed and how to make this process effective from the perspective of allocation time until 2023 and money expenditure until 2026.

The recovery program is strongly rooted in the six cornerstones set down by the EU Commission for the 2019-24 period. Firstly, the EU aims to be the first climate-neutral continent by making its economy a modern, resource-efficient one – fostering action investing in environmentally-friendly technologies, inno-

[104] Harvey D. (2007), Neoliberalism as Creative Destruction, American Academy of Political and Social Science, Philadelphia.

vative industries, more efficient and healthier forms of private and public transportation systems, and energy sector no longer based on coal, making buildings more energy-efficient and paying attention with international partners to improving global environmental standards. Secondly, the digitalization strategy is designed to bring in a new generation of technologies that will empower people. Thirdly, the EU must create a more attractive and investor-friendly environment that increases job quality with a special focus on young Europeans and SMEs. Fourthly, its voice in the world must be stronger, implementing multilateralism and a global order based on solid rules. Fifth, it must protect the rule of law if it is to stand up for justice and the EU's core values, and finally, it plans to give Europeans a bigger say, protecting European democracy from disinformation and online hate.

The NextGenerationEU program is a 750 billion euro set of instruments that are time-restricted and purposely created to help repair the damage wrought to the social and economic welfare of member states because of, and in connection with, the coronavirus pandemic. Its purpose and objectives are clear. The future EU should be greener, more resilient, and much more digitally developed, to be up to not only current but also forthcoming challenges. It consists of seven programs, with a special focus on the Recovery and Resilience Facility. It provides most of NextGenerationEU's financial resources, with €672.5 billion divided up into loans worth €360 billion and grants worth €312 billion designed to help member states make reforms and investments. The main goal is to mitigate the economic and social impacts of the pandemic to increase Europeans' preparedness for the challenges and opportunities of the green and digital transitions by making its economies and societies more sustainable and resilient. The second part of the program covers Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU). This is a new instrument within NextGenerationEU with a budget of €47.5 billion.

NextGenerationEU will bring in a total of €750 billion in additional financial resources, including through other European programs and funds such as Horizon2020 (€5 billion), InvestEU (€5.6 billion), rural development (€7.5 billion), or the Just Transition Fund (€10 billion). Poland's allocation is expected to be €57 billion (Recovery and Resilience Facility), in which grants are reflected by circa €24 billion and possible loans €33 billion (as 6.8% of 2019 Gross National Income) plus other programs amounting to €64 billion in total. This makes Poland the third biggest beneficiary of the NextGenerationEU program, just after Italy and Spain and very close to France. Given this knowledge and available statistics, it is time to ask a question: to what extent will this financial support affect the Polish economy?

The Polish economy at the time of the corona-virus pandemic

The Polish economy is highly diverse. The reason behind the existence of numerous businesses is the country's large size and population. In consequence, there is an abundance of industries and services. This is confirmed by the official statistics. The dynamic behind its economic processes is tangible, both in terms of salary levels and employee numbers, but also as regards the effect of the pandemic on employment, wage levels and its dynamics, and general progress in terms of efficiency.

Following macroeconomic, it is crucial to take a more in-depth look at two dimensions of the economy, namely GDP (Gross Domestic Product) and the unemployment rate. Figure 1 shows data concerning Polish GDP dynamics. It is the first time since its transition to a market economy that Poland has had to deal with such a decrease in GDP (minus 2.8%). It should be underlined that Poland's GDP drop is one of the smallest in Europe, where the average fall in GDP is estimated at circa 8%.

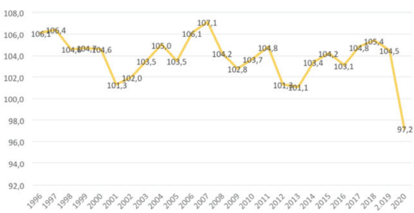


Figure 1. GDP dynamics in Poland in 1996-2020 (previous year = 100)
Source: own elaboration of Data Statistics (data for 2020 estimated for 15.02.2020)

The unemployment rate provides a set of information about the current situation in the labor market and some trends for the future. At the very beginning of the pandemic, experts forecast that unemployment might exceed 10%. Fortunately for the Polish labor market, the unemployment rate at the end of 2020 was 6.2%, which means that 1046.4 thousand workers were unemployed, and since December 2019 this number has grown by 180 thousand[105]. The unemployment rate varies from 3.7% in Wielkopolska to 10.1% in Warminsko-mazurskie voivodship[106]. It also varies between industrial sectors as Figure 2 shows.

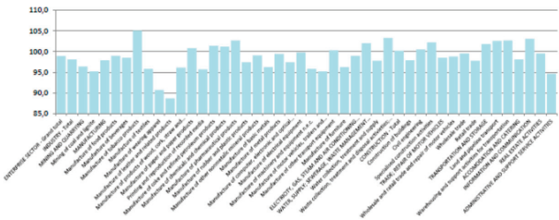


Figure 2. Employment dynamics across sectors (2019 = 100)
Source: Monthly review of the economic situation in industries. Polish Chamber of Commerce, p.5, Warsaw 2021.

It is interesting that, even at a time of crisis, most salaries went up. Figure 3 depicts details concerning wage dynamics by the industrial sector. On average, wages in the industry grew by 4.5%.

[105] The data is based on GUS methodology, which results in slightly different unemployment calculations from those achieved using BAEL methodology. In most cases BAEL methodology produces even lower unemployment rates in Poland.
[106] Poland is divided into 16 administration regions – voivodships.

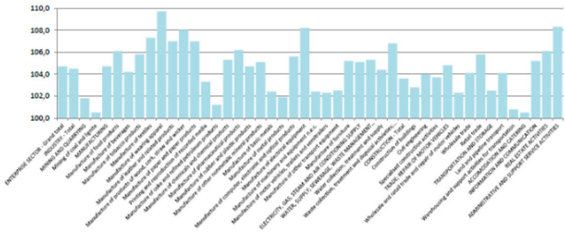


Figure 3. Salary dynamics across sectors (2019 = 100)
Source: Monthly review of the economic situation in industries. Polish Chamber of Commerce, p.5, Warsaw 2021.

The differences between industrial sectors are clearly visible when average salaries are compared (Figure 4). The highest wages, strongly above average for the enterprise sector in Poland, are to be found in: coke manufacture and refined petroleum products (175% above average), information and communication (170% above average), coal and lignite mining (160% above average). Whilst the information and communication salaries are not surprising, the other two highest wage categories are in traditional sectors. This has strong potential implications for the successful implementation of the Green Deal in Poland.

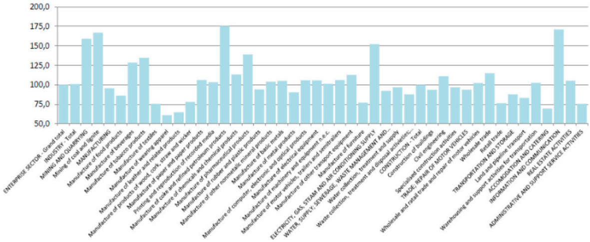


Figure 4. Comparison of salaries across sectors (average for industry sector = 100)
Source: Monthly review of the economic situation in industries. Polish Chamber of Commerce, p.5, Warsaw 2021.

Official data shows that Poland's economic situation and that of Polish entrepreneurs and employees should be positive. Is this the case? Most of us are familiar with the saying that there are no "free dinners" in the real economy. The economic policy response has been a mixture of budgetary programs and action taken by the central bank and regulators in Poland. The current situation is a consequence of unprecedented budget expenditure leading to a dramatic increase in the budget deficit (for 2019 the Polish budget was supposedly balanced). Public debt will also hit record levels, with severe consequences for future generations of Poles.

Prospects for Poland –the NextGenerationEU implementation context

The magnitude of the crisis has confronted Poland with an unprecedented challenge. Undoubtedly green transition and digital transformation should play a central and priority role in relaunching and modernizing the Polish economy. Investing in clean and digital technologies and capacities, together with a circular economy, should lead to job creation and growth and enable Poles to make the most of NextGenerationEU in the global race to recovery.

The structure of its economy puts Poland in a favorable position for a couple of reasons. Polish GDP is not especially strongly dependent on tourism (actually only Luxembourg generates less GDP from tourism). Polish manufacturing is less dependent on the global automobile industry (during the first lockdown in Europe distortions in supply chains and contracting demand were especially visible). Poland's main weakness in the wake of a pandemic is the state of its healthcare system. This has been an ongoing issue for the last few years, concerning the size of public expenditure (4.8% GDP in 2018 vs. an EU average of 7.1%) and its efficiency. The healthcare system's capacity is limited as a low doctor-to-patient ratio makes clear (PL 238 vs. EU27 361 doctors per 100 thousand citizens). A weak bureaucracy and complicated rules also potentially heavily limit the government's capacity to introduce and administer NextGenerationEU funds efficiently.

The NextGenerationEU fund is a promising source of extra financial resources at a time of pandemic crisis but Poland needs to fulfill some strict requirements as the EU has stated. Namely 37% of the fund must go to green transition and a minimum of 20% of the fund must be invested in digital transformation. This shows how challenging renewal may be. Starting from emission neutrality by 2050 declarations – still not signed by the Polish government. It is hard to imagine that this will be possible without strong opposition from the trade unions in a country where 80% of power is coal-generated, with these being interested in keeping the level of coal extraction at a constant level, meaning stable and well-paid employment (see Figure 4). This will also be complicated by the fact that, in the mining industry, about 73 thousand miners are living in the Silesian voivodship (data for Dec. 2020). The green transition should have been begun at least at the beginning of the new millennium but it failed to do so, mostly for social reasons. The current action will be more costly and money transfer via the NextGenerationEU fund may potentially make a difference. Unemployment levels for the Silesia voivodship are estimated at 91 thousand workers, 4.9%, which is relatively low (the Polish average is 6.2%, data for Dec. 2020). But the potential consequences for the region, where the closure of all the coal mines is planned by 2049 could be critical[107]. The influence of the fund on successful energy transformation will be highly dependent on effectively planned and implemented labor market action.

[107]It is estimated that a single mining job can lead to the creation of almost two extra jobs in related industries

The second issue that the fund may have a positive impact on is related to the health sector. It is hard to increase doctor numbers in the short term, but it is expected that some medical services will be digitalized or made more digitally accessible, increasing access to limited resources. Starting with the first contact with a doctor, not necessarily a direct one. During the pandemic, this process has begun but it is still far from effective. And this should be followed by the further development of digital prescription processing or access to medical data via the digitalization of data and online access. A digitalized doctor or test referral process is the next step, combining both the digitalization and health care systems.

Support for investments and reform should result in long-term GDP growth – that is the assumption. The EU Commission has prepared a few scenarios outlining what the absorption of funds might look like. The most important question behind each of these is the extent to which private investments will follow financial resources from the EU fund. In terms of effectiveness, added private investor value and the type of investments that will be supported with the fund will be crucial. The GDP growth must be reconciled with the modernity of the planned investments. Will existing ventures based on inefficient technologies be propped up – just to spend some extra money – or will there be a focus on novelty and usefulness at the local, regional, and country-levels?

Poland belongs to a group of countries specified by the

EU as low debt and with GDP per capita below the European average. It is assumed that countries from this group have the best chance of using the funds most effectively. In the most optimistic scenario, estimates for GDP growth rates for the last year of the fund's implementation (after six years of fund absorption) should be as much as 3.5% higher (in comparison to the situation without the funds). Future scenarios envisage solid GDP growth based not only on the consumption model but through effective and reasonable investments improving the supply part of the Polish economy in the long term. Today the extra GDP value generated by the fund can be estimated at €168 billion by the end of 2030, which will result in a 2.2% higher GDP growth rate by this time[108]. This is definitely worth fighting for.

Conclusions

The Polish Government must supply NextGenerationEU fund use plans by the end of April 2021. By this time a wide-ranging discussion between experts on this should have taken place. While current economic policy seems to be helping some companies to survive, much of this is poorly targeted. It is too early to evaluate the efficiency of the macroeconomic programs so far implemented by the Polish economy which is still operating in relatively good conditions, especially when compared with southern Europe. The question concerns the future. The NextGenerationEU fund should allow Poland to make an investment effort that will fuel recovery and modernize the economy. How

[108]www.pracodawcyrp.pl (access date: 15.02.2021)

effective it will be in the area of the European Green deal seems to be the essential issue. The pandemic crisis can be overcome by investing in a digital capacity, infrastructure, and technologies as key elements in the recovery effort. But first, the Polish Government must decide how much NextGenerationEU fund compromises with its perception of the future recovery of the Polish economy.

VIII
THE IMPACT OF THE NEXT GENERATION EU ON SPANISH TAXATION

Antonio O'Mulloney

At first glance, the "new digital" world requires concrete laws and regulations adapted to a new situation. An ever-changing planet requires ever-changing social norms and, of course, ever-changing taxes.

This is the established and generally accepted belief, or, at least, some variant on it. This belief entails more and more regulations and new taxes being created worldwide, without this being adequately offset by the elimination of previous norms. As a result, the current growth of government intervention and fiscal pressure has no parallels in human history and seems to be spreading to every corner of the globe.
Categorizing certain jobs as digital will likely set the pattern described above in motion: new concrete regulations, more government with no offsets.

This is not a wholesale rejection or criticism of taxes, for these are a necessary evil. But the current taxation situation, globally accepted, even cherished as 'progressive', 'harmonized', 'equalitarian' and 'just', is by no means a real method of taxation but rather a covert way of ensuring social standstill, emotional propaganda, success inhibition, political power and, last but not least, wealth expropriation. Accordingly, digital taxes will likely lead to the consequences described above.

Future generations will have a hard time understanding why we self-sabotaged. The philosophical foundations of this world view seem to be rooted in a shallow understanding of human nature, one at the expense of the whims of what it is fashionable.

Seen naively, as we have already seen, contemporary levels and variety of taxation can be regarded as an intellectual error hindering social prosperity. However, experience tells us that these repetitive polices and the negative impact of such ongoing 'mistakes' on people's prosperity and pursuit of happiness can only be understood as social design.

Ordinary people can be misled but regulators cannot be oblivious to the negative consequences of their decisions. At least, not for so many decades. This is not possible. So how has it arisen? While society endures regulated, unnecessary burdens, the question arises: who promotes these? Is anyone profiting from more "progressive", "harmonized" and "socially just" taxes? The answer is obvious: the people pushing for more regulations are also benefiting from them.

Defining the digital jobs to be taxed

As our current taxation systems were designed in the 20th century, they tend to rely on the implicit fact that governments can easily identify where economic activity is happening and therefore know where to raise taxes. Knowing where consumption takes place, where profits are generated and where owners of wealth and rents reside makes tax collection easy. However, as global digital transformation expands, the old international frameworks used to locate and tax wealth creation no longer work as they used to, as they are based on the legal "permanent establishment", a series of basic principles such as linked transactions and international transfers and an international network of treaties eliminating double direct taxation.

Therefore, digital economic activity makes it difficult for tax administrations to locate and tax wealth creation. Digital companies' activities rely on intangible assets such as data and information management, hindering states' ability to find out "where" profits are generated. Under the current rules, digital companies are seen as paying most of their taxes in the country they are headquartered in, instead of where their profits are really generated.
As the ongoing economic digitalization process expands, its impact on tax systems is growing. On one hand governments know that profits are being generated by digital companies within their jurisdictions but are unable to properly quantify and tax them as they do not know what generates those profits exactly (software, sales, data usage. etc.).

Since governments are incapable of raising tax revenues from these companies, other taxes are raised and digital taxes are created to keep up with increasing public spending. At the end of the day, digital taxes can significantly distort and damage competitiveness.

Consequently, it has become crucial for governments to properly tag jobs as “digital”. At this stage, definitions of digital jobs would seem to be somewhat arbitrary, as these can include any job in which location is irrelevant to performance to strictly online jobs.

For the purpose of this essay, both companies and their employees would be deemed digital jobs, i.e., both Youtube and the youtuber.

Of course, the logic that sustains a job being defined “digital” is that which enables its special taxation to be discussed. The arbitrariness of the definition makes for the arbitrariness of the norm. Without a special adjective such as “digital”, no debate would exist. What makes a digital job special? Seemingly nothing objective, it’s just a job like any other.

The role of NextGenerationEU in fiscal harmonization

On July 21, after four days of negotiations, the European Council agreed to a massive recovery fund of €750 billion at constant 2018 prices under the Next Generation EU (NGEU) brand, to support member states affected by the Coronavirus. The NGEU fund covers the 2021-2023 period and will be linked to the regular EU (MFF) 2021-2027 budget. The comprehensive

NGEU and MFP packages will ultimately amount to €1824.3 billion. The NGEU agreement will be paid off by generating its own resources through direct taxes, considered the first step towards fiscal harmonization in the EU.

NGEU's long-term ambition and depth, especially in regard to its goal of promoting EU fiscal integration, clash with UN sustainability goals and imply global governance.

Globally harmonized digital taxes

The digital era has made the world smaller, in both distance and thinking terms. And, of course, it can also make the world smaller when it comes to the taxation choice spectrum. Harmonization is a new word for an old debate: competition versus monopoly/oligopoly, which, in turn, stems from an even older debate, freedom versus control.

In our "smaller" digital world, decision making and regulation enactment monopolies are a real temptation. Technology makes it possible. This has been the case for the EU in recent decades, in which the debate for tax harmonization has been ongoing. One further step in this harmonization direction is the UN Agenda 2030 (great reset). When this is fully implemented, it will substantially alter the global governance architecture for taxation, to the point of a completely unified system. At least, that is the objective.

The apologists of a harmonized system say that it is a commendable goal based on sustainability and inclusivity, whatever those words mean. They say that tax competition is unfair, for it benefits certain countries (i.e., Ireland). Allegedly, it would reduce tax evasion, foster the welfare state and allow environmental and healthy taxes to be implemented in nations adhering, firstly, to the EU and, later, to the Agenda 2030.

By contrast, those opposing increasing harmonization see it as a threat to national sovereignty, competition, even private property. They see competition as present in every environment fostering prosperity, and lack of competition automatically hindering growth, since a harmonized system would have no incentive to adapt to market needs (i.e., fewer regulations and lower taxes). Seen from the premise explained elsewhere, harmonized taxation suggests a design for increased political power and social control by those enacting harmonization. Every inch of state, or supra state, advance is an inch lost to individuals. The global control temptation is disguised under new names like harmonization, a product of certain ideologies like globalism.

The international dimension of digital taxation

Should digital companies pay taxes where they are headquartered or where they generate profits? If the second option is chosen, how can governments determine where profits are being made and how much each country should tax? Is there a way of doing this?

These matters generate profound disagreement between governments. Some claim that national digital companies should pay taxes in the country they come from exclusively. Others, such as some European states, want digital companies to pay for activities on their soil. As countries cannot agree on how to divide potential tax revenues from digital companies, it seems that no consensus is currently on the cards.

As early as 2011, G-8 and G-20 groups highlighted the need to clarify where significant tax-base erosions were occurring. This need intensified as the crisis challenged governments' capacity to collect enough taxes to maintain public spending levels. Along with the OECD, the BEPS (Base Erosion and Profit Shifting) Action Plan was established, with its first initiative being "Tax challenges arising from digitalization". Regarding the digital taxation challenge, no international solution has been reached. At EU level, the European Commission has also proposed a harmonized set of rules with which to tax digital companies, although no agreement was reached on this either. Given this inability to reach international agreement on taxing digital services, some governments have decided to go it alone. This has led to many European countries announcing, proposing and even implementing digital taxes.

Tax harmonization and digital taxes in Spain

The National Budget Law for 2021 parliamentary debate, profoundly linked to NextGenerationUE funds, raised the need to end alleged fiscal dumping by the Community of Madrid (and some other regions) and reestablish fiscal harmonization designed to standardize taxation for citizens throughout Spain, at least to some extent. Beyond the technical issues and specific proposals for regulatory amendment, tax harmonization as a whole is far from realistic, but different and complementary aspects should be addressed: legal jurisdiction, public spending and the public revenue stream.

Tax-regulatory harmonization would require the various governments and political institutions, as well as the corresponding administrations, to have similar competences and attributions, in their legal, managerial and administrative capacities. Preaching harmonization when some of the political actors involved have very restricted decision-making and action scope, being subject to the rules and dictates of third parties, is not feasible In other words, it is only possible to speak of harmonization when the political actors enjoy a certain degree of autonomy.

A perfect example is the regulation of corporate profit taxation at the state level. Apart from the differences between tax rates, there are notable discrepancies regarding the tax base, the way the tax base is calculated and tax exemptions and benefits. Although almost all countries have some type of tax equivalent to Spanish Corporate Tax, there is no common, harmonized tax regulation or framework, despite unsuccessful attempts in various international and multilateral forums, especially in the OECD and the EU.

Value Added Tax (VAT) can be defined as harmonized at the European level. Even so, in those aspects in which the regulations attribute powers to the states, the responses have differed, depending on convenience and needs. For this reason, there are currently clear differences between VAT tax rates (from 16 per cent in Germany to 27 per cent in Hungary), the application of reduced rates and determining exemptions.

In Spain there is no homogeneous tax framework, but some regions have specific features ensuring regimes of regulatory and administrative jurisdiction differing from the rest of the territory. Thus, the Basque provinces and Navarra have regulatory, management and tax collection powers, without prejudice to coordinating and integrating their taxation into the general framework in the rest of Spain. The other Autonomous Communities and Ceuta and Melilla (autonomous cities) have the same or an equivalent regulatory and competence framework. Specifically, not only do they establish the current funding system of the Autonomous Communities (the distribution of tax collection and allocation to the autonomous entities) but they also regulate the distribution of powers, as well as total or partial tax transfers.

In the specific case of the Wealth Tax and the Tax on Inheritance and Donations, although these are state taxes, both collection and regulatory powers (partially) are transferred to the regions. This common regulatory framework establishes a starting standardization in faculties, capacities and competences, for the same political and administrative level. Now, apart from the provincial territories, there is considerable tax harmonization at the competence and regulatory level. The Spanish regions have a very similar framework of competence, taking on the main benefits (Education, Health and other services) of the so-called Welfare State. Thus, carrying out its functions requires a certain level of expenditure. However, this expenditure will basically depend on two variables: demand for services and citizen benefits and the degree of efficiency and effectiveness in the management of public resources.

At the expenditure level, fiscal harmonization would require expenditure to be equivalent between the different Autonomous Communities for the same good, service or public benefit. Starting from a common catalog of goods, services and benefits, citizens should be able to freely choose what public goods and services they want, as well as what benefits and aid they are willing to pay for. Let us consider autonomous public television, for example. If people choose not to pay for this, then the regions could release the corresponding public spending to other items or to leave it in the hands of their citizens. Similarly, if a region demonstrates greater skill in the management of funds and resources, that is, it achieves public service and benefit standards with lower recurring spending, this allows it to reduce its funding needs and reduce taxes.

Finally, actual fiscal harmonization of public revenues requires equal means and resources to obtain the necessary funds to finance public spending and ensure the development of public policies. Communities have basically the same funding tools available to them: tax collection, debt issuance and, to a lesser degree, asset management and active market participation. As the last two are residual or even clearly deficient and the issuance of debt is very limited, to maximize income, all that is left to the regions is adjusting their tax systems.

When it comes to digital taxes, as we have seen, many EU member states have implemented national digital taxes unilaterally, despite the international dimensions of the problem. In this respect, tax administrations aim to reach two targets. Firstly, generating tax revenue from digital companies. This is particularly important for countries such as Spain, as its growing fiscal imbalance means it is trying to obtain higher tax revenues in order to avoid public spending cuts. Secondly, increasing and improving the information the tax authorities have on affected companies, which could be helpful for the purposes of verifying accounting data and increasing tax revenue from other taxes paid by firms, such as VAT or labor taxes.

In a global economy, where companies and workers work internationally, many problems can arise from the implementation of digital taxes at a national level. Primarily, there are no non-arbitrary ways for national tax administrations to identify what value creation digital companies rely on, and, therefore, properly quantify their tax-bases. Next, companies may be able to transfer the costs of digital taxes to consumers, employees, business partners, etc. Although digital companies are the formal subject of taxation, it is very likely that they will manage to act as tax collectors only. This means that examining the real tax incidence of digital taxes is required. In fact, companies such as Apple or Amazon have already announced that, due to the implementation of digital taxes in some countries their prices and tariffs will be adjusted, passing on the tax burdens to app-developers and businesses, respectively.

Moreover, digital tax implementation may come at the expense of damaging the economy's digitalization processes. This is particularly relevant for the European economy which clearly lags behind other regions in technological and digital advance terms. For traditional European companies currently digitalizing their businesses, this tax will affect their ability to catch up with others that have taken a significant lead, mainly American and Chinese companies.

Finally, it is important to consider the geopolitical consequences of implementing digital taxes. For the most part, taxing digital companies means taxing Chinese and American companies, a move that could trigger action from these. For instance, France halted the application of its digital tax twice, in order not to avert an increase in tariffs from the United States.

The future of digital taxation

Digital taxation is one of the most important future taxation debates, given the ongoing transformation brought by the digitization of the economy not only to Western economies but to the whole world.

Post-Covid Taxation vs Tax Competition

The NGUE relief package is one of the cornerstones of Eurozone recovery and its use has been encouraged by the European Council and supported by member states. The zealous support of the Spanish government and the huge amount of funds set aside for Spain will likely require Spain to join forces with the EU's common goal of fiscal integration, both internal, within the Autonomous Communities, and the rest of the EU.

Likewise, public programs resembling NGEU may open the door to new economic and fiscal changes. According to the World Economic Forum, the Covid crisis has highlighted numerous inefficiencies in both the free market and the current international system. As such, the WEF and the many international leaders adhering to it propose resetting the system based on global planning and monitoring. Digital tax harmonization would undoubtedly play a central role in such a goal.

The current and likely future impact of tax competition is one of the main issues in the future of tax policy in the EU. The crisis will affect revenue and countries will come out of the crisis looking for ways to make good the gaps in their budgets, creating investment opportunities and attracting capital and workers. These important issues ultimately come down to what governments–and potentially the European Union as a whole–decide to do when planning the direction of tax policy. Regarding revenues, countries may try to push for continued support from the EU budget or opt for taxes on foreign companies or energy sources, trying to shift the tax burden in a new direction.

When it comes to investment, governments may be tempted to double down on approved incentives like special deductions schemes for research and development or green investments. Additionally, to attract workers, some countries have announced that, to take advantage of increasing worker mobility, they will design special schemes to attract foreign workers by offering them lower taxes.

These issues may necessarily lead to a great many complex proposals. Tax systems are not well suited to one-off proposals or incentives on different industries. In fact, this (special incentives for certain activities or special taxes on certain industries) will mean countries ending up with complex and overly burdensome tax systems. As far as Spanish tax policy is concerned, this has essentially focused on technological industries through the introduction of the Tobin tax and other new taxes on digital services. However, taxes are more efficient when applied broadly rather than trying to create narrow special privileges or taxing certain industries differently.

As regards wealth taxes in the European framework, all countries in Europe except Spain have abolished these, most of which dated from the 15th and 16th centuries.

The path of least resistance

Companies, self-employed people and employees seek to maximize their profits and legal certainty. In other words, they seek to be welcomed and celebrated, not persecuted and controlled.

Digital job flight (companies and people) to more benevolent taxation environments is an expression of the path of least resistance, a law of nature which, when infringed, begets negative results for the country doing so. This pattern is readily visible in the flourishing tech sector in Ireland, at the expense of other EU countries, or, recently, in the controversial flight of youtubers from Spain to Andorra.

Countries competing by means of lower taxes (like the Baltics within the EU) are aware of this long standing pattern. The concept of global harmonization is, at its very core, a threat to independent individual decision making. Despite this ongoing debate, do digital companies avoid paying taxes? Contrary to popular belief, tech companies pay as much tax as other non-digital companies. The effective corporate tax rate among GAFA companies (Google, Apple, Facebook, Amazon) is on average 24 per cent over five-year and ten-year periods. The issue is, therefore, not that digital companies avoid paying taxes, but that these taxes are mainly paid in their home states. This situation creates conflict between tax jurisdictions competing to tax profits and generate tax revenue.

An alternative strategy

The digitization of the economy is a revolution in itself and an enormous opportunity for citizens across the world. From a government perspective, it has numerous fiscal consequences for which digital taxes are far from being a solution. It is increasingly clear in Europe and across the world that tax systems are in need of in-depth reform. As of now, tax systems are not ready to implement digital taxes efficiently. Likewise, current digital taxes are widely inefficient, with way too many undesirable consequences that do not compensate for constant increases in tax revenue across the years.

It would be appropriate to move on to tax systems based-on-indirect-taxation rather than direct taxation. VAT will be a key element in the tax systems of the future. It is better to increase revenue through increased VAT tax rates and eliminate exemptions to it, rather than create new taxes and increase direct tax rates.

As a characteristic direct taxation effect, lowering corporate tax increases productivity. In an open world, capital moves easily across borders with the actual corporate tax return tending to be the same in all countries. Accordingly, the higher the tax, the higher the return companies need and the less investment a country with high taxes would get. When a government lowers corporate income tax it attracts more investment. This effect has been empirically proved across the world. Thus, as the return from capital tends to be the same everywhere, its benefits would go to labor, which is less mobile, but can produce more productively. All in all, the most effective way of increasing productivity is lowering corporate tax rates.
Likewise, tax bases matter for productivity and tax competitiveness purposes. That is why countries like Estonia or Latvia rank first on tax competitiveness for corporate tax, because they do not punish investment in the way other systems do, essentially by allowing investment costs to be expensed immediately.

In the specific case of Spain, with all the regions having identical mechanisms and decision-making capacity, while most of them have chosen to focus on tax collection and debt issuance, assuming an inelasticity in the number of taxpayers, others have trusted that a reduction in bases and rates would be more than offset by a growth in the number of taxpayers combined with the multiplier effect of greater economic dynamism.

The decision of the Community of Madrid to distinguish itself from the rest of Spain has enabled it to take advantage of the fact that they were following opposing trajectories, the attraction of "net taxpayers": people with a medium-high or high income level, with a low demand for public services and benefits. Decreases in collection of certain taxes have been shown to be more than offset by increases in the other main taxes (personal income tax, corporation tax and indirect taxation).

IX
MAINSTREAM SUSTAINABLE FINANCE FOR BUSINESS MANAGEMENT PRACTICES

Sofia Santos

"The movement of money is intrinsically linked to the movement of raw materials, finished goods, labor and, ultimately, to the quality of the environment ... if we want to achieve sustainable development we must be willing to finance it.[109]*"*

The urgent need for a new growth model

Measured by Gross Domestic Product World, economic activity has increased exponentially since the 1950s (figure 1). Such an increase in the economic system also has implications for the earth system. While world GDP is rising and economies are growing in some parts of the world, carbon dioxide and methane levels, ocean acidification and marine fish capture, for instance, have also been increasing (figure 2).

Figure 1: Economic System - World GDP over the last two millennia1

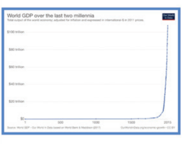
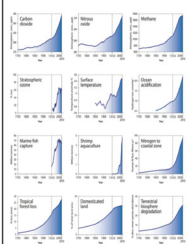


Figure 2: Earth System2



[109]Sarokin, D., and Schulkin, J. (1991), 'Environmental concerns and the business of banking'. The journal of commercial bank lending.

[110]Source: https://ourworldindata.org/grapher/world-gdp-over-the-last-two-millennia, consulted in 26/2/2021

[111]Source: W. Steffen, W. Broadgate, L. Deutsch, O. Gaffney and C. Ludwig (2015), 'The Trajectory of the Anthropocene: the Great Acceleration', The Anthropocene Review

This exponential economic growth has had an exponential impact on the earth system, causing some of the nature-related imbalances we are experiencing today, such as loss of biodiversity and climate change.

Taking into account the still prevalent economic model, which assumed that market forces would incorporate environmental externalities, we might view these earth imbalances as an expected consequence of the economic growth we have been witnessing since the 1950s. Despite all the scientific warnings issued to economists and managers, the market economy has not been able to incorporate the future environmental impacts of these same decisions into its decisions.

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There is consensus amongst climate scientists that dramatic changes in the earth system will occur if the global temperatures increase more than 2° C over pre-industrial levels. Some of these dramatic changes could be significant rises in the sea level due to a melting of major ice sheets in Greenland and the Antarctic, a more frequent occurrence of climate-related extreme events and massive species extinctions[112]. But, in 2005, worldwide temperatures had already increased 1º C above pre-industrial levels, and the average temperatures in the Mediterranean have also risen by 1.5˚ C, with rainfall levels dropping 2.5%[113].

In view of all this scientific information, countries have agreed on the need to do whatever it takes to make sure average worldwide temperature increases do not reach 2º C, ideally keeping them below 1.5º C, by signing the Paris Agreement. In order for this to be achieved, all countries signing up to this agreement will need to be carbon neutral in the second half of the 21st century. This deadline has shortened for Europe, since the EU and many of its member states, have anticipated their commitment to become carbon neutral by 2050.

European Green Deal

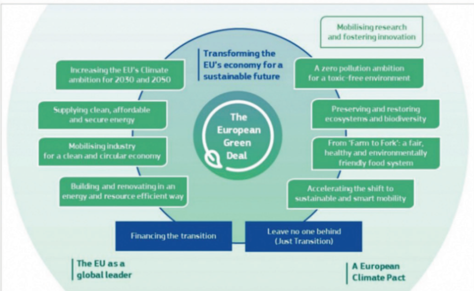
Understanding the need to bring balance to our planet, in late 2019 the European Commission (EC) published the European Green Deal plan to **make the EU's economy sustainable, aligning economic activities with carbon neutrality for 2050 objectives and with its Sustainable Development Goals.**

The European Green deal is an action plan designed to boost the efficient use of resources by moving towards a clean, circular economy, restoring biodiversity and reducing pollution. It also identified the investment needed and the available funding tools. Achieving car-

[112]Wang, Z., Lin, L., Zhang, X., Zhang, H., Liu, L., & Xu, Y. (2017) Scenario dependence of future changes in climate extremes under 1.5 C and 2 C global warming. Scientific Reports, 7, 46432.
[113]Worrying effects of accelerating climate change on the Mediterranean Basin, European Commission, Oct 2018

bon neutrality at a European level requires action by all sectors in our economy and includes: investing in environmentally-friendly technologies; supporting industry to innovate; rolling out cleaner, cheaper and healthier forms of private and public transport; decarbonizing the energy sector; ensuring buildings are more energy efficient and working with international partners to improve global environmental standards[114].

Figure 3: Overview of the EU Green Deal areas



Source: European Commission, 2019. The European Green Deal

A carbon neutral economy requires a range of investments and the EU faces a climate investment gap of €150-177 bln of additional investment per year by 2030[115]. "According to data by the European Investment Bank, when we look at the goals for the energy, transport, water and waste sector as a whole, this number rises to €270bn[116]".

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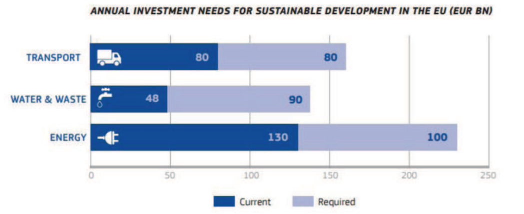
[114]https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en, consulted in 26/2/2021
[115]Spolc, M. EU Strategy on Sustainable Finance Sherpa meeting of the HLG EII, DG FISMA 2019
[116]Finance Sustainable Growth, European Commission Action Plan, Fact Sheet. https://ec.europa.eu/info/sites/info/files/180308-action-plan-sustainable-growth-factsheet_en.pdf , consulted in 26/2/2021

Figure 4: Annual Investment Needs for Sustainable Development in the EU (Eur BN), to reach 2030 goals



Source: https://ec.europa.eu/info/sites/info/files/180308-action-plan-sustainable-growth-factsheet_en.pdf

As far as the 2050 carbon neutrality goal is concerned, the annual average investment needed is in the range of €1.19 to 1.48 trillion, from 2031 until 2050[117].

Where will this investment come from? It will come from European funding, but mainly be supported by private business and households.

At European level the Sustainable Investment Plan involves investments of €1 trillion until 2027, namely:

- €503 billion euros from 2021 to 2030, from the EU climate and environmental budget. This is expected to trigger additional national co-funding worth €114 billion over this timeframe on climate and environment;
- €279 billion of private and public climate spending is expected to be leveraged by InvestEU;
- €100 billion from the Just Transition Mechanism;
- at least €25 billion from the Innovation andModer-

[117]idem

nisation funds, for the EU transition to climate neutrality.

In accordance with the European long-term strategic vision[118] this investment will come mainly from businesses and households, which means that to foster such investment, "it is crucial for the European Union and Member States to offer clear, long-term signals to guide investors, to avoid stranded assets, to raise sustainable finance and to direct it to clean innovation efforts most productively.[119]"

The world thus needs a new type of finance willing to incorporate environmental risks into project and company analysis and to lend money to greener projects. It is only via capital flows aligned with EU environmental goals that carbon neutral and inclusive economy goals can be achieved by 2050. This is the context in which the EU has been working on the issue of sustainable finance since 2018.

Sustainable finance and its accelerating power

According to the EC "Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG) considerations** *when making investment decisions in the financial sector, leading to increased longer-term investments in sustainable economic activities and projects. More specifically,* **environmental considerations** *may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention*

[118]European Commission, A Clean Planet for all: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy (2018).
[119]idem

and circular economy. Social considerations may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues. The **governance** of public and private institutions, including management structures, employee relations and executive remuneration, plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process"[120].

Hence, sustainable finance means financial institutions (FIs) including ESG factors in their lending and investment models. In so doing, FIs can reduce their ESG risk and, at same time, induce companies to implement sustainable management practices capable of speeding up progress towards Green Deal goals.

In March 2028, the first step was taken towards a new financial system in Europe, in which the EC published its "Action Plan: Financing Sustainable Growth" as part of a broader search to connect finance with specific environmental European policies. This plan's goals are threefold:

1. reorienting capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
2. managing financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
3. fostering transparency and long-termism in financial and economic activity[121].

[120] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en, consulted in 26/2/2021

[121] European Commission, Action Plan: Financing Sustainable Growth, 2018

Achieving these three goals implies a complete change in the purpose of the financial system, now expected to take an active part in achieving the Paris Agreement and sustainable development goals.

With the European Green Deal as Europe's plan to **make the EU's economy sustainable, the importance of aligning funding with Green Deal goals has increased further in importance. This is the Commission's way of recognizing the significance of a** renewed sustainable funding strategy *"which aims to provide the policy tools to ensure that financial system genuinely supports the transition of businesses towards sustainability in a context of recovery from the impact of the COVID-19 outbreak*[122]*"* . This renewed strategy, to be made public in the early months of 2021, can be seen as strategically aligning the financial sector as a whole with the *"objectives of the European green deal investment plan, in particular to creating an enabling framework for private investors and the public sector to facilitate sustainable investments"*[123]

But what criteria make an activity sustainable for the purposes of promoting sustainable activities and a sustainable economy? In order to respond to this question the EC worked with a set of experts to develop a Taxonomy which was published in the Official Journal of the European Union on 22 June 2020 and came into force on 12 July 2020.

[122]https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en, consulted in 26/2/2021
[123]idem

The EU Taxonomy on sustainable activities

As we have seen, sustainability in the financial sector is bound up with integrating ESG factors into risk assessment and product development decisions. Given this, it is important that the environmental, social and governance goals that economic activities have to align with in order to be recognized as sustainable should be defined.

The EC set this process in motion by defining the environmental goals that a sustainable economic activity must be aligned with in order to be considered sustainable. This definition is set out in EU Regulation 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and its amendments. Also known as the EU Taxonomy, this regulation sets up a classification system, establishing a list of environmentally sustainable economic activities.

Article 3 of this regulation explicitly sets down the criteria for environmentally sustainable economic activities, stating that an economic activity shall qualify as environmentally sustainable where it:

• contributes substantially to one or more of the environmental objectives;
• does not significantly harm any of the environmental objectives;
• is carried out in compliance with the minimum safeguards laid; and

• complies with the technical screening criteria established by the Commission.

In other words, an environmentally sustainable activity must contribute substantially to one or more of the following six environmental objectives, without significantly harming any of them:

• climate change mitigation;
• climate change adaptation;
• the sustainable use and protection of water and marine resources;
• the transition to a circular economy;
• pollution prevention and control;
• the protection and restoration of biodiversity and ecosystems.

As regards the first two objectives – mitigation and adaptation – the Technical Expert Group (TEG) on sustainable finance published its final report on the EU taxonomy in March 2020. The report contains recommendations relating to the overarching design of the EU taxonomy, as well as implementation guidance on how companies and financial institutions can use and disclose in relation to it. A technical appendix was also produced setting down detailed criteria for 70 climate change mitigation and 68 climate change adaptation activities, including the criteria for doing no significant harm to other environmental objectives.

The taxonomy within EU funding

The taxonomy has become the central regulation underpinning all future funding by the EU and its member states. In fact, the Europe's moment: Repair and Prepare for the Next Generation document published in 25/5/2020 to support recovery and resilient financial support post Covid, reads that *"The EU sustainable finance taxonomy will guide investment in Europe's recovery to ensure they are in line with our long-term ambitions. This will be supported with a Renewed Sustainable Finance Strategy later this year. To ensure environmental and social interests are fully embedded into business strategies, the Commission will put forward a new initiative in 2021 on sustainable corporate governance"*[124]. In fact, the Recovery and Resilience Facility explicitly states that national recovery and resilience plans should:
- devote at least 37% of total expenditure to investment and reform supporting climate objectives;
- devote at least 20% of total expenditure to digital transition;
- contribute to strengthening member states' growth potential, job creation and economic, institutional and social resilience;
- not significantly harm the environment

By including "not significantly harm the environment" as a criteria for allocating capital in the national recovery and resilience plans, the EC is stating that projects receiving such funding must not significantly harm any of the six environmental objectives referred to above[125]. In so doing, the EC is contributing towards

[124] European Commission, Europe's moment: Repair and Prepare for the Next Generation (2020)
[125] To better understand read Article 17 of the Regulation (EU) 2020/852

mainstreaming sustainable funding in an exemplary manner.

The taxonomy within the financial sector

Applying the taxonomy to the European financial sector has prompted major challenges for banks: new languages, new risks, new reporting obligations and, soon, new capital requirements implications.

The first challenge is associated with EU Regulation 2019/2088 published on 27 November 2019 on sustainability related disclosures in the financial services sector, which *"lays down harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability related information with respect to financial products"* . Under this regulation a set of financial market participants defined in Article 2 are required to post information on their websites regarding their policies on the integration of sustainability risks into their investment decision making process and financial advisers are required to post information on their websites regarding their policies on the integration of sustainability risks into their investment or insurance advice. This regulation also states that financial market participants and financial advisers are to include information in their remuneration policies regarding how these policies align with the integration of sustainability risks, and post that information on their websites. This regulation came into

[126]Official Journal of the European Union, REGULATION (EU) 2019/2088, on sustainability related disclosures in the financial services sector (2019)

force on 10th March 2021 and the level of disclosure required is expected to increase gradually.

The next great challenge for the financial system is bound up with the potential existence of 'green supporting' or 'brown supporting' factors for banks. This means that bank and insurance prudential ratios and capital requirements can be linked up with their portfolio alignment with the taxonomy, i.e., with how much of their lending contributes to the six environmental goals expressed in the taxonomy. In order to monitor this, banks will need to ask new and detailed environmental (and later social and governance) data information from their SME clients, enabling them to rank their clients on their ESG practices and taxonomy alignment. One of the main market failures in the sustainability field is currently access to ESG data.

There is, therefore, an urgent need for access to ESG information from SMEs, and the SMEs will need financial support to help them implement ESG data reporting systems internally, allowing them to respond to the FI information request.

Conclusion

Sustainable finance in Europe aims to modify the purpose of the financial system, in line with carbon neutrality promotion goals, sustainable development goals and social inclusion. Achieving these goals requires major changes to take place in the culture and processes of financial institutions. All of these changes will be accelerated by a robust, intensive regulation.

SECTION III
EMPLOYMENT
AND WELFARE STATE

X
THE NEXT GENERATION EU IMPACT ON SPANISH WELFARE STATE

Antonio O'Mulloney

The welfare state

Under the abode of the welfare state, a new funding package has been created by the European Union, unmatched both in size and in its final destinations, to be implemented by both the Spanish central government and its autonomous communities.

In accordance with orthodox academical thought and the premises taught at almost every major economic faculty the world over, the Encyclopaedia Britannica defines the welfare state as a "concept of government in which the state or a well-established network of social institutions plays a key role in the protection and promotion of the economic and social well-being of citizens. It is based on the principles of equality of opportunity, equitable distribution of wealth, and public responsibility for those unable to avail themselves of the minimal provisions for a good life. The general term may cover a variety of forms of economic and social organization".

Such an apparently sometimes unanimous definition fosters the idea that it is the job of the state to act as a fair arbiter, promoter and censor of its citizens' social and economic decisions, revolving around an abstract inability of those who are ruled and the special quality or decision-making capabilities of the welfare state. This orthodox definition is undoubtedly a philosophical and ethical slippery slope, as we will see later.

In addition, this definition fails to break down both the levels of "those unable to avail themselves" and the degree of government intervention defining a free market, a welfare state or a totalitarian state. Where do the boundary lines lie? In economic matters? In social matters? In matters of thought? Who is to define these categories?

Many thinkers are critical with the concept of the welfare state, the consequences of their policies and, to an even greater extent, its progressive growth in recent decades. From its intended temporary inception, social support has become permanent and grown in extent, and the stratum of the population deemed "unable to avail themselves" has progressively widened.

Historical overview of the welfare state

In Spain, the main welfare state institution is social security – with origins dating back to the second half of the 19th century – whose purpose is to manage the health, pension and unemployment systems. It is taking a leading role in the implementation of measures in relation to the Coronavirus crisis.

Two of the best-known global examples of welfare programs and packages, historically, are the responses to the Great Depression of 1929 (New Deal) and the financial crisis of 2007. These two share many common features and, also, with the current response to the Covid crisis. The New Deal was applied in the USA and inspired similar action worldwide. It focused on the now well-established Keynesian narrative of public works, housing and farm programs, but also implemented banking, monetary and fiscal reforms. The response to the crisis of 2007 was global and focused specifically on reforming the banking sector and its relationship to the earlier housing market boom and crash.

The NextGenerationEU funds are taking a similar approach to the Covid crisis. Will it help with recovery? Special relief programs have had controversial consequences which are difficult to assess, for there is no parallel universe to use as a yardstick.

For example, economist Thomas Sowell has been critical of the New Deal: "those who think that the stock market crash in October 1929 is what caused the huge unemployment rates of the 1930s will have a hard time reconciling that belief with the data in that table", and, also in relation to the 2007 housing boom which he blamed on the institutions in charge of ensuring their integrity (Fed or Freddy Mac). The pattern is consistent. As of 2021, Spain has still not fully recovered from the 2007 crisis and stimulus packages (i.e., Plan E) have been central to this failure.

Unlike the welfare programs of the past, the focus of the NGUE is not solely economic issues, but also values, as set out in the United Nations' 2030 Agenda for Sustainable Development.

Philosophical implications of the welfare state

At the core of the welfare state lies the belief that if the market is not doing what we wish it to do, it is reasonable to automatically assume that governments would do better. Obviously, there is a grandiosity problem here. First, the belief that we know what the market/economy should do and, subsequently, that we are capable of doing it. No matter how badly plans and programs perform, they are not judged by their fruits, results and social prosperity but by their intentions. For, again, there is a grandiosity problem, the goal of policies being to feed the self-righteousness of those who promote them.

The socioeconomic implications of the welfare state versus the free market

As Sowell would say, "the welfare state is the oldest con game in the world. First you take people's money away quietly and then you give some of it back to them flamboyantly".

As compared to the free market, the welfare state's lack of efficiency is glaring in many aspects. It generates endless taxes and regulations, a group of people who profit from allocating such resources and a net of people who get trapped in the subsidies and whose personal independence and responsibility are correspondingly diminished. But the welfare state may well have a beneficial role to play in our society, as long as its real objective is the implementation of short-term programs and emergencies used as excuses with which to erode our liberties and rights.

NextGenerationEU goals

It is foolish to judge policies, programs and packages by their intentions rather than by their results. But this chapter will cite the mooted objectives and directions of NextGenerationEU without no critical assessment.

<u>The largest stimulus package ever</u>

To help repair the economic and social damage caused by the Coronavirus pandemic, the European Commission, the European Parliament and EU leaders have agreed on a recovery plan that will lead the way out of the crisis and lay the foundations for a modern and more sustainable Europe. The EU's long-term budget, coupled with Next Generation EU, a temporary instrument designed to boost recovery, will be the largest stimulus package ever funded through the EU budget. A total of 1.8 trillion euros will help rebuild a post-Covid-19 Europe and make it a greener, more digital and more resilient place. The new long-term budget will increase flexibility mechanisms to guarantee it has the capacity to address unforeseen needs. It is a budget fit not only for today's realities but also for tomorrow's uncertainties.

The last step in the adoption of the next long-term EU budget

To alleviate the economic effects of the Covid-19 pandemic, the EU has launched the Next Generation EU program with the aim of boosting economic growth in member states. The Spanish government has already incorporated a first phase of these funds, amounting to 26.6 billion euros, into its General State Budget (PGE) for 2021.

Total consolidated expenditure on the 2021 PGE will reach 550.5 billion euros, an amount that, excluding the first tranche of European funds, will entail a growth of 13.6 per cent, as compared to the amount allocated to the budgets of the previous year. However, if the liquidity generated by the Next Generation EU recovery mechanism is integrated, the increase will rise to 19.4 per cent over 2020. Over the next three years (2021-2023), Spain may receive transfers from the Next Generation EU program amounting to a maximum of 71.6 billion euros, through two major investment instruments: the Recovery and Resilience Mechanism (MRR), which, together, will bring in up to 59.2 billion euros, and React-EU, which will add up to 12.4 billion euros. In the 2021 PGE, the government expects to collect 24.2 billion euros from the MRR and another 2.4 billion euros from the React-EU fund, up to a total proposed figure of 26.6 billion euros of European aid. Thus, 37.1 per cent of the total Next Generation

EU funds set aside for Spain will be invested next year.

The distribution of funds in the national budget

The channelling of the investments making up Next Generation EU has already been defined. On the MRR side (24.2 billion euros), these will be channelled into an expansion of the PGE spending ceiling for 2021 without incurring a deficit, and will be distributed through the various ministries. Meanwhile, the React-EU (2.4 billion euros) budgetary funds will be channelled through the Pluriregional Operational Program of Spain (POPE) and managed directly by the Ministry of Health. It should be clarified that the remaining 10 billion euros of React-EU will be implemented between 2021 and 2022, but will not be included in the national budget.

Resources from European funds will not all be centrally used. Of the 24.2 billion euros of the MRR computed in the 2021 PGE, 55 per cent will be managed by the state (13.4 billion), while 45 per cent (10.8 billion) will go to the Autonomous Communities. Of the 10.8 billion euros that will be managed by the Autonomous Communities, some 4.3 billion euros have already been regionalized including the substantial funds allocated to the regions of Andalusia (702 million euros), Catalonia (596 million euros), Madrid (461 million euros) and Valencia (414 million euros).
For now, of the React-EU funds – which will amount to 12.4 billion Euros between 2021 and 2023 – 20 per cent will be managed by the state (the 2.4 billion eu-

ros which form part of the 2021 national budget). The remaining 80 per cent (10 billion euros) will be administered by the Autonomous Communities, within a process that will include the regional operational programs of each one of these.

The distribution of funds by individual ministries

It is worth analysing the weight of the allocation of the Next Generation EU funds by ministerial area within the 2021 national budget in detail. The distribution offers clues as to which sectors will be most significant when disbursing resources and where the opportunities for development lie.

The Ministry of Environmental Transition will be assigned 28 per cent of the total resources (6.8 billion euros), focusing on the deployment of the renewable generation park, the promotion of electricity networks and an expansion in storage. Meanwhile, the ministerial area of Transport, Mobility and Urban Agenda will be assigned 21 per cent (5 billion euros), which will be allocated to housing renewal, sustainable mobility plans and associated infrastructure. 15 per cent (3.7 billion euros) of European funds have been allocated within the national budget for the Ministry of Economic Affairs and Digital Transformation with the money mainly being spent on digitization of the productive fabric, the promotion of digital connectivity and the digitization of the public administration. The remaining resources will be allocated to Education and Vocational Training (8 per cent), Industry, Commerce and Tourism (7 per cent), Labour and Social Economy (5 per cent), Science and Innovation (5 per cent) and Social Rights and the 2030 Agenda (4 per cent).

The distribution of funds by individual area of recovery

The government's plan includes critical investment areas that are included in the national budget for 2021 and will determine some of the MRR and React-EU funding items for next year. Access to housing and encouraging building will account for about 1.7 billion euros, 6.2 per cent of the total European aid fund within the 2021 national budget. 2.9 billion Euros will be set aside for the public health system, 11 per cent of total European expenditure. Energy and Industry will also be subject to significant investment, close to 5.6 billion euros (21.1 per cent of the total allocated for 2021). Resilient infrastructure and ecosystems, as well as digitization, research and development will account for about 18 per cent of the total resources of these funds - more than 4.6 billion euros, respectively.

These funds – an exceptional recovery instrument approved by the European Council – consist of two fundamental pillars: the Mechanism for Recovery and Resilience (MRR), designed to fund projects promoting economic regeneration through sustainability and digitization, endowed with 672.5 billion euros and REACT EU, endowed with 47.5 billion euros and designed to strengthen the welfare state (education, health and social policies).

However, European aid money will be late in arriving and there may be delays. For this reason, in the national budget for 2021, the government has already incorporated a first item of these funds, amounting to 26.6 billion euros. The distribution of this sum among the different ministerial areas offers clues as to which sectors will be accorded the most significance when it comes to disbursing resources. The Ministry of Environmental Transition, which will account for 28 per cent of the total (6.8 billion euros), is in first place and will focus on the deployment of the renewable generation park, the promotion of electricity networks and their storage. In second place, the ministerial area of Transport, Mobility and Urban Agenda will assign 21 per cent (5 billion euros) to housing renewal, sustainable mobility plans and associated infrastructures.

In addition, the Ministry of Economic Affairs and Digital Transformation has been allocated 15 per cent of the budget (3.6 billion euros) to be mainly spent on the digitization of the productive fabric, the promotion of digital connectivity and the digitization of the public administration. The remaining resources will be shared out between the various ministerial areas: Education and Vocational Training (8 per cent), Industry, Commerce and Tourism (7 per cent), Labour and Social Economy (5 per cent), Science and Innovation (5 per cent) and Social Rights and the 2030 Agenda (4 per cent)

What is special about the NextGenerationEU funds?

The special features of the NextGenerationEU funds

Both in quantity and quality terms, the NextGenerationEU funds are historically unprecedented, with the EU issuing European sovereign bonds to allocate grants and loans to its member states and paying these off by generating its own resources through direct taxation, considered the first step to European fiscal integration. Quantitively, the 1.8 trillion euros sum speaks for itself.

Unlike the concrete great public works of the New Deal, in qualitative terms the stimulus revolves around the sustainable goals of the UN's 2030 Agenda. These goals are not easy to define and seem to consist in creating a problem in order to implement a prefabricated solution to it (i.e., the Covid crisis). Oddly enough, while the crisis caused by the measures adopted to tackle Coronavirus – unsuccessfully in the health category – have increased unemployment, destroyed small businesses and decreased GDP, the NGUE is particularly well-suited to the UN's goals and leaves real and necessary economic problems in the background.

Are the NextGenerationEU funds an expression of the welfare state?

As the NextGenerationEU stimulus is strongly linked to the UN's 2030 Agenda for Sustainable Development, it makes sense to first assess to what extent this is an expression of the welfare state. From a traditional welfare program standpoint, it is not. From the viewpoint of the ambiguous orthodox definition, it is. From a classical economic (Austrian) viewpoint, defining the welfare state as a covert way of implementing socialism, it is definitely an expression (in that sense) of the welfare state.

Will the stimulus help those who need it the most?

As has been previously seen in Spain with the distribution of other packages of help, within the framework of the Covid crisis the correct implementation and allocation of the NextGenerationEU funds poses several questions. For example, the collapse of the Public Employment Service due to an increase in temporary unemployment has caused the allocation of financial aid to be delayed. Since the crisis began, banks have advanced unemployment and other benefit on the first week of each month.

As of February 2021, official unemployment rates in Spain are extraordinarily unclear, but there are signs that they may be some of the highest ever recorded with more than 200,000 businesses having closed and tourists numbers plummeting by 77 per cent, and the national institute of statistics has calculated a drop in GDP of around 11 per cent. In view of this, it is even more surprising to see relief funds focusing on such an array of "sustainable" goals.

All in all, the Covid crisis seems to be a never-seen-before opportunity to implement the welfare state's old goals, a method for transforming the market economy into a socialist one, step by step, as Ludwig von Mises would say, or the wolf in sheep's clothing on the coats of arms of the Fabian Society tacitly declares. These steps are clearly set out in the UN Sustainable Development Goals. Accordingly, the World Economic Forum has indeed acknowledged that the Covid crisis is an opportunity for a 'great reset' in the economy.

The NextGenerationEU funds cannot be considered in isolation from other global issues. The possibility (and perils) of a global standardized system implemented by means of inflation, social benefits recipients' stagnation, high taxation, enormous bureaucracy, high unemployment rates, bribery and pro-government propaganda is quite real. Stimulus packages play a key role in this process, and this is enhanced by the fact that the stimulus is experimental in its goals and unmatched in size.

Particularly when it comes to Spain, experience warns us that the implementation of new relief programs conceals ailments that exacerbate the country's structural problems. NextGenerationEU will likely create a similar situation to that generated by the aforementioned Plan E a decade ago: more state dependence.

If there is a state raison d'etre, it is to give individuals the opportunity to set themselves free. An eagerness to help citizens, beyond the freedom framework, is almost always a covert way of ruling over them.

XI
AGEING, EMPLOYMENT AND THE GENERATION DIVIDE

Fernando Mendes and Anna Sepulveda

The current pandemic surge will continue through the first trimester of 2021 and the second lockdown decided by the Portuguese authorities in mid-January will linger on, delaying recovery with the economy expected to return to growth much later this year. Businesses providing face-to-face services or relying on crowded workplaces and customer areas have been worst affected and businesses in the travel, hospitality, restaurant, sale of non-essential goods and events and cultural services sectors will see a further drop in earnings. New furloughs, reduced worktime and layoffs are in place, following the 2020 pattern, as Chart 1 shows[127], although unemployment is expected to be hit hardest.

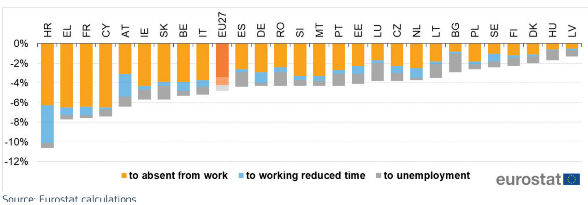


Chart 1 – Employment-income loss (% on 2019) by transition from employment

[127]Charts 1-3 and 5 were taken from EU, Employment and Social Developments in Europe, December 2020.

During the current pandemic wave, lockdown and paid absence has been renewed but, at some point in time there will be a reckoning, at which point some of the more indebted firms may not survive, as moratoriums on bank loans cease, competition becomes fiercer and markets recover at a slow pace.

The loss of income will primarily affect low and medium-income households, in line with the effect of the 2020 pandemic waves (Chart 2), but possibly have a more pronounced effect.

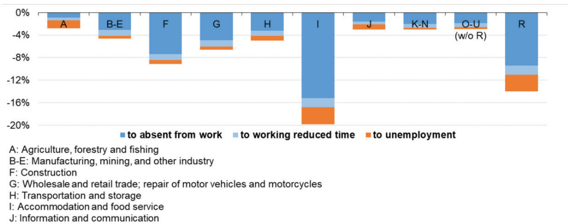
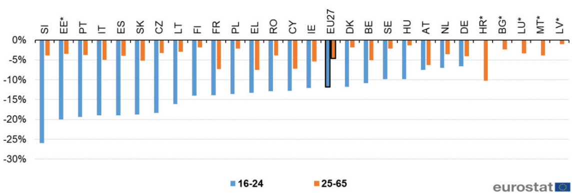


Chart 2 - Employment-income losses (% on 2019) by income group

As unemployment rises, young people will be hit hardest, following the 2020 pattern (Chart 3), along with those in low-skilled, temporary work and living in poorer households.



Source: Eurostat calculations

Chart 3 - Employment-income losses (% over 2019) by age bracket

If imbalanced long-term impacts of Covid-19 across generations are to be avoided, short- and long-term policies to foster employment and promote social inclusion must be implemented in conjunction, to tackle important structural issues, such as population ageing, the productivity gap and digital and green economy transitions in addition to the immediate needs of the more vulnerable to the present health crisis.

Current policies

Since the 1990s, the labour market and social policies adopted by successive governments have aimed to counter some of the consequences of the technological catch-up the Portuguese economy has been subjected to within the European single market. These policies have provided effective short-term safety nets for families and businesses affected by unemployment.
In the medium- and long-term, competition within the single market increased the demand for technologically sophisticated labour and the country's education and professional training systems proved unable to meet the challenges involved in mass skill upgrades and had to undergo thorough and lengthy reform. Structural long-term unemployment hit the older labour force and early retirement schemes had to be extended in order to ease the costs borne by the unemployed and their households. As the social security pensions system was already being hit by fast-ageing demographies, further concerns over its sustainability emerged.
In this context, new active policies were designed, tar-

geting specific groups at risk of poverty and exclusion. Means-tested unemployment benefits and minimum income allowances were provided to at risk individuals and households, linked to mandatory tailor-made inclusive programs of professional training, education, and rehabilitation.

Table 1 shows the current weight of the various current labour market policies (LMP), measured by 2018 expenditure expressed as a percentage of GDP, for a select group of EU member states. Passive supports (income maintenance and early retirement) are compared to active measures and to total labour market spending in Portugal, Italy, Germany, Spain and Sweden. There is an evident gap between Northern and Southern Europe, with the former showing no recent use of early retirement schemes and lower spending on unemployment benefits. Portugal is the greatest user of early retirement, stemming from difficulties achieving mass low skilled human resource upgrades.

Table 1 –Passive and active labour market policies expenditure as % GDP (2018)

Regions	Out-of-work income maintenance	Early retirement	Active LMP measures*	Total LMP expenditure
Portugal	0.612	0.358	0.303	1.310
Germany	0.697	0.000	0.246	1.040
Italy	1.143	0.007	0.360	1.531
Spain	1.425	0.022	0.552	2.150
Sweden	0.465	0.000	0.825	1.540

*Training, employment incentives, supported employment and rehabilitation, direct job creation, start-up incentives.

Source: EU, Labour market policy Expenditure and participants, Data 2018

Educational reform has progressed, albeit at a slow pace, as OECD indicators for 2019 confirm:
• 40% of all upper secondary students enrol in vocational education and training (VET) programmes in Portugal, below the OECD average of 42%;
• 37% of the 25-34 age bracket has tertiary education qualifications in Portugal, compared to 45% on average across OECD countries;
• total investment per student on primary to tertiary institutions was USD 10 220 as compared to USD 11 231 on average across the OECD countries (in aggregate terms, 5.2% of GDP, compared to 4.9% on average across the OECD countries);
• the proportion of the population in the 25-64 age bracket with a vocational upper secondary or post-secondary qualification is one of the lowest in the OECD (7.7 %, rank 31/34);
• the percentage of the population in the same age bracket with a BA or equivalent tertiary education degree is one of the lowest in the OECD (7 %, rank 38/46);
• upper secondary or post-secondary non-tertiary education levels in the 55-64 age bracket is one of the lowest in the OECD (15.4 %, rank 39/44).

Professional training was enhanced within the framework of renewed state employment services and new technological centres for specific industries via public-private partnerships and EU funding.

Since 2000, the public pensions system has been through several parametric adjustments designed to help it cope not only with the financial impact of early retirement but, more importantly, with the fast pace of population ageing. Since 2007, the legal age for retirement (previously, 65 years) has been linked to changes in life expectancy at the age of 65 (in 2021, it has been set at 66 years and 6 months) while early retirement requirements have become more stringent. Pensions have been indexed to inflation and GDP, favouring pensioners with the lowest benefit levels. Since 2017, active and healthy ageing policies have been under discussion and some have been implemented within the government's new Strategy for Active and Healthy Ageing (2017-25).

Structural issues

As compared to Northern member states, the South of Europe is ageing faster, a process that has been driven by sudden large drops in birth and death rates (i.e. child mortality). As important gains in life expectancy at birth and old age have been achieved, demographic ageing has accelerated. This has become an important structural issue for societies across Southern Europe, as trends are expected to overtake earlier ageing experiences in Northern Europe by 2050, with Portugal featuring as one of the fastest ageing member states:
"Italy will be the first to reach an average age of 50, in 2028, followed by Portugal in 2032 and Greece in 2036. Indeed, in 2050 Portugal is projected to have the oldest average age in the EU-28, at 52.6 years, with Italy just behind at 52.2. In 2070, the two countries with the highest average ages will be Portugal and Croatia (both with 53.6)[128]."

[128]European Parliament, Demographic Outlook for the European Union 2020

As shown in Table 2, by 2070, 35.4 % of the Portuguese population will be 65 or over, the largest proportion across the EU, and a large drop in the 15-64 population bracket will have occurred[129].

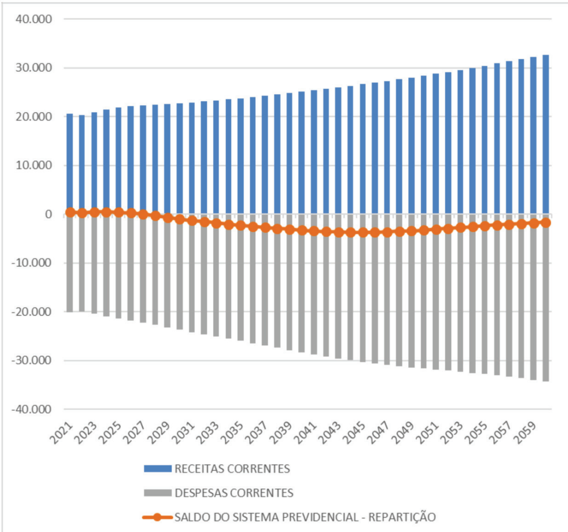
Table 2 – Population breakdown by age-group, 2016 and 2070

	2016				2070			
	(0-14)	(15-64)	(65+)	(80+)	(0-14)	(15-64)	(65+)	(80+)
BE	17.0%	64.6%	18.4%	5.5%	15.9%	58.0%	26.2%	10.6%
BG	14.0%	65.4%	20.6%	4.7%	14.0%	55.1%	30.9%	14.7%
CZ	15.5%	65.9%	18.6%	4.0%	14.7%	57.0%	28.3%	13.3%
DK	16.8%	64.3%	18.9%	4.3%	15.5%	56.3%	28.3%	10.6%
DE	13.2%	65.7%	21.1%	5.9%	13.9%	55.3%	30.9%	13.3%
EE	16.1%	64.7%	19.2%	5.2%	14.7%	55.9%	29.4%	13.9%
IE	22.2%	64.4%	13.4%	3.1%	17.0%	58.7%	24.2%	11.2%
EL	14.4%	64.2%	21.4%	6.6%	12.3%	53.8%	33.9%	16.6%
ES	15.1%	66.0%	18.9%	6.1%	16.3%	57.1%	26.6%	12.8%
FR	18.4%	62.6%	19.0%	5.9%	17.1%	57.3%	25.6%	10.8%
HR	14.6%	66.0%	19.4%	4.9%	13.2%	55.6%	31.2%	13.0%
IT	13.6%	64.3%	22.1%	6.7%	12.6%	54.5%	32.9%	14.6%
CY	16.1%	68.7%	15.3%	3.4%	11.4%	55.1%	33.6%	14.0%
LV	15.4%	64.9%	19.8%	5.1%	15.4%	55.0%	29.6%	15.0%
LT	14.7%	66.1%	19.2%	5.4%	14.7%	55.8%	29.6%	13.9%
LU	16.4%	69.3%	14.3%	4.0%	14.9%	57.2%	27.9%	11.1%
HU	14.5%	67.1%	18.5%	4.3%	14.9%	56.0%	29.1%	12.3%
MT	14.3%	66.4%	19.3%	4.2%	14.5%	54.9%	30.6%	13.3%
NL	16.4%	65.3%	18.3%	4.5%	15.7%	56.8%	27.5%	10.6%
AT	14.3%	67.2%	18.5%	5.0%	13.8%	55.8%	30.4%	12.4%
PL	15.0%	68.7%	16.3%	4.2%	13.1%	53.6%	33.3%	16.2%
PT	14.0%	65.1%	20.9%	6.0%	11.9%	52.7%	35.4%	15.7%
RO	15.3%	67.1%	17.6%	4.3%	15.5%	55.3%	29.2%	13.5%
SI	14.9%	66.4%	18.7%	5.0%	14.9%	56.7%	28.5%	13.5%
SK	15.3%	70.0%	14.7%	3.2%	14.2%	54.7%	31.1%	14.3%
FI	16.3%	63.0%	20.7%	5.2%	14.7%	56.1%	29.2%	12.2%
SE	17.5%	62.7%	19.8%	5.1%	17.2%	57.8%	25.0%	10.1%
UK	17.7%	64.4%	18.0%	4.8%	15.9%	57.6%	26.5%	10.7%
NO	17.8%	65.7%	16.5%	4.2%	15.7%	57.3%	27.0%	10.7%
EA	15.2%	64.8%	20.0%	5.9%	14.9%	56.0%	29.0%	12.7%
EU*	15.5%	65.2%	19.3%	5.4%	15.0%	56.2%	28.8%	12.5%
EU27	15.2%	65.3%	19.5%	5.5%	14.9%	55.9%	29.2%	12.9%

Source: EC-AWG2018 - "The 2018 Ageing Report. Economic and Budgetary Projections for the EU Member States (2016-2070)", European Economy, Institutional Paper 079

The pressure upon the pensions system will be unsustainable under current eligibility rules and pay-as-you-go funding (Chart 4).

[129]Revised projections by the EU's Ageing Working Group (AWG2021), taking 2019 as the base year, present a less negative view of ageing in Portugal: by 2060 the 65 and over will account for 33.4% of the population. This ratio will be just as challenging to the sustainability of the pensions system as the previous AWG2018 forecast, however.



Revenue (mostly from social wage contributions) Expenditure
Deficit (surplus)
Source: Social security pensions sustainability analysis (staff document accompanying the 2021 State Budget Law)

Deficits will rise and peak at 1% of GDP by 2040 and the current fund – the Social Security Stabilization Fund - will have been used up by 2045. Discussions on supplementary tax revenue and additional incentives to delay the retirement of the older active population has been underway for some time. Nevertheless, additional incentives to delay the retirement of older workers must be balanced with the employment prospects of the younger generations, in order to contain the generational divide.

The pandemic has increased the number of NEETs across the EU. As compared to Northern Europe, Southern Europe has a higher proportion of NEETs in the young cohorts (Chart 5). Whilst Portugal's position is intermediate, job creation and more effective labour market entry incentives for the young should not be put off. Additional increases in the effective age of retirement for the older generations may further jeopardize the social and professional integration of the lower skilled NEETs.

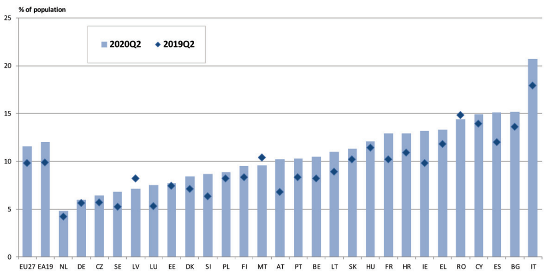


Chart 5 – Young people aged15-24 neither in employment nor in education and training (NEET) in the EU

Chart 6 shows employment rates the over-65s by gender across the EU, accounting for 8.1 % of men in this age group in 2019, more than double the corresponding share recorded amongst older women (3.9 %).

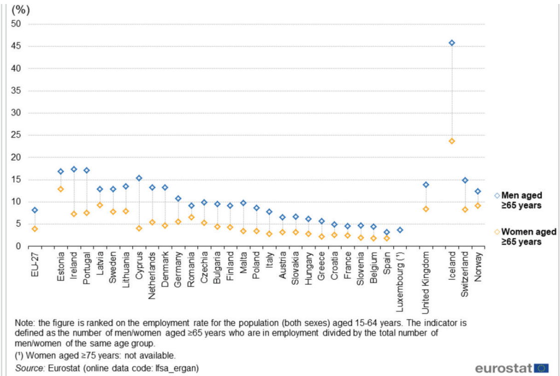


Chart 6 - Employment rates for the elderly (65 years and over) by gender in the EU (2019)
Source: EU, Ageing Europe - statistics on working and moving into retirement, 2020.

The highest employment rate for men aged 65 years or over was recorded in Ireland (17.3 %), followed closely by Portugal (17.1 %), both with very high male over-65 employment rates and a very large gender gap, as compared to other member states. Given this gender gap, the actual overall impact of the rising legal retirement age should not be overstated. Chart 6 shows trends in Portugal, for the long 1998-2019 period, for the over-

65s employment rate, compared to the 15-64 age bracket. The former was quite stable at around 20% in the 2002-2010 period and decreased in 2011-2015, during the economic adjustment period. From 2015 onwards it stabilized at a much lower level, slightly over 10%, whereas the employment rate for the 15-64 age bracket increased by 10 percentage points.

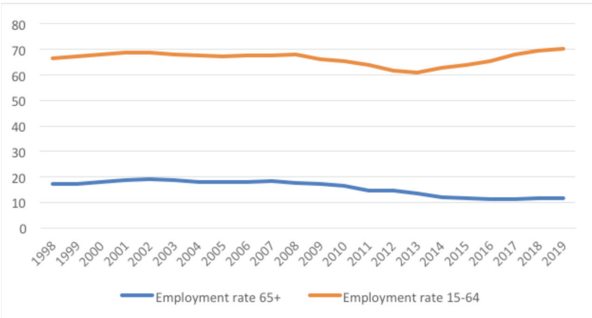


Chart 6 - Employment rates by large age brackets in Portugal (1998-2019)
Source: INE, Statistical Yearbook, 2019

Progress in education and training has been insufficient to offset the large labour force skill deficit, as the latest OECD Economic Survey for Portugal reiterated: "The skills of the population aged over 24 are lagging. Participation in target lifelong learning opportunities to the low-skilled, including by collecting lifelong learning activities are particularly modest for those with initially low skill levels. (OECD Economic Surveys: Portugal, 2019)."

Longevity gains and active and healthy ageing

Portugal's substantial longevity gains since 2000 have been driven by falling death rates from strokes and ischemic heart disease. Life expectancy at birth increased by nearly five years between 2000 and 2017 and is now slightly above the EU average (Chart 8).

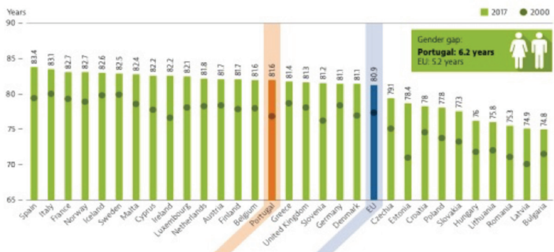


Chart 8 – Life Expectancy at birth in the EU (2000-2017)
Source: EC, State of Health in the EU: Portugal, Country Health Profile, 2019

The ageing of the Portuguese population presents a variety of features. There is a higher than EU average gender gap. Inequalities by educational level are significant: in 2016, the life expectancy of Portuguese men with the lowest levels of education at age 30 was approximately five and a half years lower than that of those with the highest education levels, with the corresponding figure for Portuguese women being less than three years. Levels of physical activity remain low compared to the EU average. Alcohol consumption and levels of overweight and obese people are high, particularly among children. Around one in six adults smoke every day, although the rate has decreased since 2000 (EC, State of Health in the EU: Portugal, Country Health Profile, 2019). Half the population reports being in good health as compared to most of the EU where two thirds of adults rate their health positively, as shown in Chart 9.

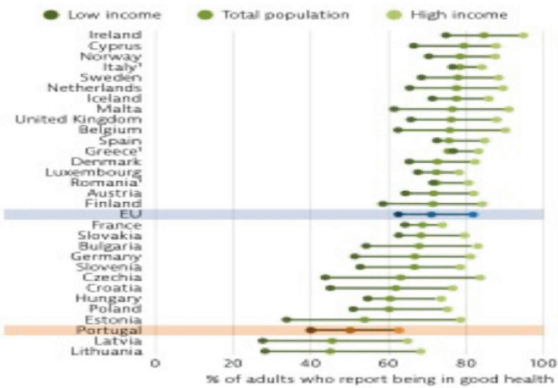


Chart 9– How EU citizens rate their health
Source: EC, State of Health in the EU: Portugal, Country Health Profile, 2019

The Portuguese strategy for active and healthy ageing 2017-25 broadly follows the WHO life course approach to ageing (Chart 10).

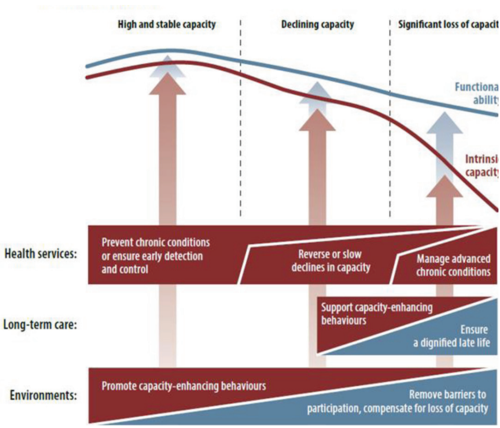


Chart 10 – WHO public health framework for healthy ageing
Source: ENEIAS 2017 (Portuguese Strategy for Active and Healthy Ageing, 2017-25)

This strategy comprises two major goals: (1) promoting healthy lifestyles and health prevention; (2) achieving better chronic disease management within the National Health Service. Accordingly, policies for active and healthy ageing target measures designed to promote age friendly environments, healthcare and long-term care best suited to maintaining high individual capacities, and slowing down decline in the later stages of the life cycle.

Besides access to healthcare, this strategy fosters action engaging individuals in lifelong learning and training and promoting health, financial and digital literacies, with ageing also been seen as an important focus for

urban policies promoting age-friendly contexts.
A number of programs and projects have been implemented via the joint efforts of government and non-profit institutions, such as the Gulbenkian Foundation and the Bissaya Barreto Foundation, to address ageing issues in the context of active citizenship and age-friendly environments.

Most corporate decision-makers remain under-committed to corporate age diversity management policies in human resources and to sustaining intergenerational fairness in employability and employment recruitment. Part of the success of active and healthy ageing policies in Portugal, as in other Southern European countries, depends ultimately on new directions in human resource management being taken.

Three main directions should be incentivized by corporate leaders, public policy, academia and opinion makers.

1. Renewed human resource management models for firms.
• Taking a broader approach to critical skills to improve corporate performance by balancing the higher technological skills supplied by younger workers with the better human relations skills of older workers.

2. Age-flexible labour contracts to foster new organizational roles for older workers.
• New roles focused on enhancing shared values: mentor, coach and corporate volunteering enabling.

3. Reform of the social security system in order to provide more equitable and sustainable benefits for all generations and accord a wider role to complementary pension schemes funded by corporations.
• In accordance with the EU *Green Paper on Ageing: Fostering solidarity and responsibility between generations* (COM (2021) 50 final): "One of the big issues in the debate on how to respond to ageing is intergenerational fairness. The challenge is to maintain an adequate level of social protection without putting an excessive burden on the shrinking working-age population whose contributions represent the biggest financing source for social systems."

XII
JOBS. THE ACHILLES' HEEL OF THE SPANISH ECONOMY

Juan Soto

The Spanish labour market today. Here we go again

The COVID-19 crisis has underlined the weaknesses of the Spanish labour market once again. And just as with the 2008 financial crisis, which hit the Spanish economy harder than those of neighbouring countries—with the exception of Greece—it may have a permanent impact on the labour market. To avert this, appropriate management of the Next Generation EU (NGEU) funds will be of the utmost importance for the Spanish government, as is exemplified by the fact that this is one of the top priorities of the Parliamentary Commission for Social and Economic Reconstruction.

To mitigate the negative economic effects of the coronavirus pandemic, Spain will receive 140,000 million euros, of which 72,000 million will be non-refundable aid covering the 2021-2023 period. Spain will receive 34,000 million euros in 2021 alone, distributed as follows: 27,000 million in the 2021 national budget with the rest going directly to the Spanish regions (autonomous communities). The challenge is enormous for a number of reasons, however. Firstly, because Spain, the fourth largest eurozone economy, has always had an astonishingly high unemployment rate, which is not

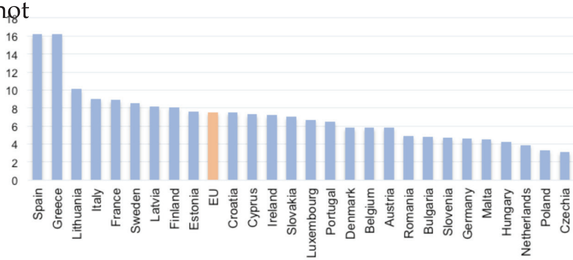


Figure 1. Unemployment rate (%) in the EU. Dec 20
Source: Own from Eurostat data

fully explained by its considerably large shadow economy. During the Great Recession, unemployment—youth and long-term in particular—skyrocketed to 26.1 percent in June 2013. Although employment has grown at an average annual rate of 2.4 percent since 2014, in December 2019—that is, just before the pandemic—it was still very high (13.6 percent). As a result, Spain had not yet recovered from the previous economic downturn when the pandemic hit, and unemployment had increased further to 16.2 percent by December 2020. According to the Spanish Ministry of Labour and Social Economy, unemployment rose by 724,500 in 2020; that is, 23 percent as compared to 2019. This rapid rise in unemployment contrasts greatly with that of other EU member states as the EU average unemployment rate in December 2020 was 7.5 percent —around 16 million people—as Figure 1 indicates.

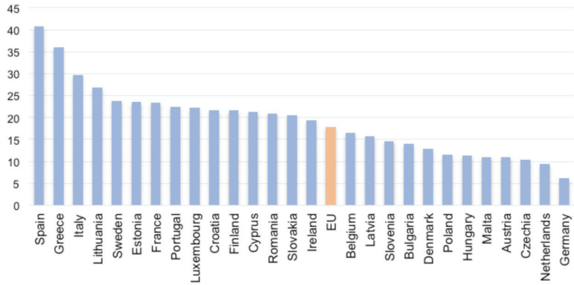


Figure 1. Youth unemployment rate (%) in the EU. (the under 25s) Dec 20
Source: Own from Eurostat data

And the alarming situation in the Spanish labour market is particularly so when youth unemployment (the under 25s) is considered. According to Eurostat, in December 2020, the youth unemployment rate was 17.8 percent in the EU and 18.5 per cent in the eurozone. However, Spain had a youth unemployment rate of 40.1 percent (see Figure 2). That is, an increase of 23.7 percent over 2019. In short, roughly one in every two Spaniards under 25 years of age is currently unemployed. This is especially dramatic as it prevents them from pursuing their life ambitions, having a family, buying a house, saving, etc. Not to mention the cost of their economic dependency on their parents or the burden they constitute to the overall welfare state, greatly hindering its sustainability in the medium and long term.

Next Generation EU funds to the rescue. Free handout or reforms needed?

It is precisely the sustainability of the "European model" and our welfare society that the NGEU funds aim to protect. On October 7 2020, Spain's Prime Minister, Pedro Sánchez, presented the country's Recovery, Transformation and Resilience Plan ("Spain Can") designed to access—or unlock—the resources of the NGEU programme. He announced that this injection of funds into the Spanish economy would create 800,000 jobs. This has been corroborated to some extent by various other organisations, such as the Madrid World Construction Capital Association (MWCC). Promoted by the Madrid City Council and with members including more than 80 public and private entities, this organization has estimated that, if Spain manages to invest these 27,000 million euros, over 300,000 full-time jobs will be created in 2021 alone. In addition, the indirect impact caused would amount to an additional 15,000 million euros of production and 147,000 extra jobs. Finally, the economic impact generated by the increase in spending derived from the newly created salaries would generate some 30,000 million euros more, resulting in a total of 730,000 jobs.

However, these European funds pose a considerable challenge for Spain and elsewhere, as they are no free lunch. On the contrary, the EU will get out of this economic emergency via profound transformation or not at all. This transformation will trigger substantial reform if the projects being put forward are to be implemented and the funds made full use of.

The Spanish economy is capable of creating 800,000 jobs within three years as more than 400,000 jobs were created in Spain annually in the 2014-19 period. However, in contrast with past recovery, EU funds cannot be spent on any type of investment but must be aligned to the priorities set by the European Commission which are, fundamentally, environmental transition, the digitization of the economy and a more inclusive and cohesive society. As a result, structural reforms will be needed, and these will necessarily have more medium and long-term effects than immediate ones.

The situation is therefore complex and thus far unresolved for Spain, as the reform package proposed to Brussels by the Spanish Government—promoting energy transition and investment in R&D, digital transition and climate change, improving the management of public finances and tackling a series of social challenges—was much criticised by the EU Commission, which stressed the urgency of substantial reform in two specific areas: labour market and pensions. However, the current government, a coalition government, lacks consensus on these two. Furthermore, the reforms attempted—following those that this government has already passed—are contrary to what seems to be needed today.

In March 2019 the Government passed an extension in the length of paternity leave to 8 weeks from April 1, 2019, 12 weeks from January 1, 2020, and 16 weeks from the first day of 2021 making it equal to maternity leave today. Similarly, in 2020 the minimum wage increased by 5.5 percent over 2019, to 950 euros. A further increase to 1,000 euros a month in 2021 was planned, but this has been put on hold as the government seems to have understood that further increases would only contribute to more jobs being lost. Nevertheless, despite this small—yet important—break, the government is committed to repealing the labour law reforms that the previous government (People's Party) approved in 2012 and whose outstanding results should be evident to all by now. However, as we have seen, it will be repealed[130] or substantially modified to make it more difficult to hire and fire, shielding a number of social rights which constrain the employment possibilities of certain specific age and gender categories, etc. It would therefore seem that short-term political gain is taking precedence over long-term economic stability and prosperity. The exact opposite of what Spain needs today.

This approach also harms other much needed reforms in Spain, such as striving to accomplish a greater degree of political stability and improving institutional quality. The former consists of Spain's need for a stable and business-friendly foreign investment environment, something that is hard to imagine today in the light of some of the measures and statements coming from a number of ministers, who have recently argued for nationalising private companies in strategic sectors (e.g. energy). A further element in this political instability is the never-ending Catalan question, with civil unrest in Catalonia ongoing in its quest for independence—and whose toll in terms of companies

[130] The reform plan that the Spanish Government sent to the European Commission in January does not explicitly envisage repealing the 2012 Labor Law reform but merely includes a number of minor amendments to it, agreed upon by the two parties to the coalition government.

fleeing Catalonia, foreign investment going elsewhere, etc. is already significant[131]. As far as the second element is concerned, improving institutional quality, this is not only an incentive for economic activity to flourish, but also an absolutely fundamental precondition for the effective management of NGEU funds if their impact is to be truly maximised.

A good performance by Spanish institutions and the public administration as a whole is therefore absolutely crucial, especially in light of Spain's track record on this front. This is underlined by the country's management of the European funds covered by the last Multiannual Financial Framework in 2014-20. By 2019 only a third—34 percent to be exact—of the 56,000 million available had been implemented. However, as the IMF Fiscal Monitor indicates, countries with a more effective public sector are capable of implementing a larger proportion of the European funds allocated to-them.

[131]The cost of Catalonia's hypothetical independence was recently studied in a paper by EPICENTER Network and Fundación Civismo. Available at: http://www.epicenternetwork.eu/publications/the-economic-cost-of-catalonias-hypothetical-independence/ (last accessed February 10, 2021). However, there substantial economic damage has already been done over the past few years by the independence movement.

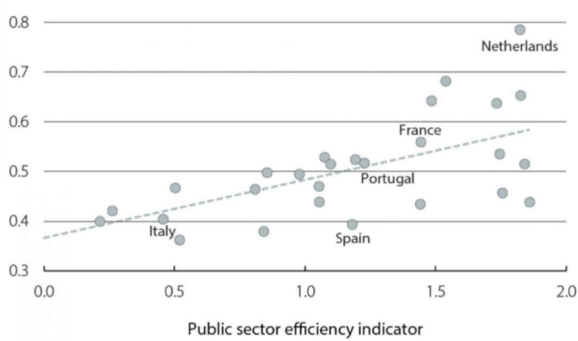


Figure 3. Spain public sector effectiveness and degree of project implementation in Europe
Source: CaixaBank Research, based on data from the IMF's Fiscal Monitor in October 2020.
(2014-2020 expenditure relative to the European structure funds assigned)

As Figure 3 shows, Spanish public sector efficiency is middling and there is a great deal of room for improvement. That said, it should be noted that the NGEU funds are substantially different from structural funds, as the latter tend to be for very specific purposes, which makes it difficult to find enough suitable projects. NGEU funds, by contrast, give national governments a greater degree of choice over what to invest in, provided that the policies align with the objectives set out by the European Commission – green transition, digital transition, etc. In any case, an in-depth reform is needed to enable Spain to demonstrate the agility required if it is to be able to present projects in the short time frame set out and implement them once they are granted.

The (good) way forward from here

Spain will have three battles to fight if it is to make the most of the NGEU funds and not waste this important opportunity for economic recovery and job creation. First, short-run electoral gains must be put to one side and replaced by long-term courageous decisions., In the field of the Spanish labour market regulation, this implies not seeking further hiring and firing rigidity and postponing employment rights progress—e.g., maternity or paternity leave, minimum wages, etc.—with their significant negative effect on job creation.

At the same time, as public mechanisms providing subsidies come to an end, there is a serious danger that the long drawn out Covid-19 crisis will trigger a wave of corporate bankruptcies across the EU. And this is particularly the case of the Spanish business landscape, as 98 percent of it is made up of small and medium size companies, accounting for 66 percent of all jobs. These are the true employment creators but they are currently in serious difficulty. The current government must thus not push through any measure that would harm this weakened environment.

Secondly, the government must take action to reverse Spain's past track record of being prevented from making the most of EU funds by an inefficient public sector and sloppy management and supervision of projects. A further challenge is coordinating the different levels of public administration—national, regional and local—as this is often highly inefficient but must be improved, in the light of the fact that it is currently estimated that around 50 percent of the funds could be implemented by the autonomous communities. We simply cannot afford to waste this opportunity.

This brings in a further element namely that, at such an unprecedented moment, joint working between the public and private sectors is more necessary than ever before. For the NGEU funds to be a success and have the greatest impact possible on the Spanish labour market, private initiative must work in conjunction with the public administration's planning and implementation capacity.

This private-public joint working will also be of great value when it comes to distinguishing between healthy and so-called zombie companies. The latter refers to companies whose profits cannot cover their financial costs, that is, what they earn does not even pay back the interests on their debts. The fact is that the Spanish government is having real trouble distinguishing between these and healthy companies and, to that end, Brussels has recommended turning to the private sector—the banking sector, in particular—as the key factor is whether or not a private investor would be willing to invest in these companies. EU funds should go to those private investors would be willing to invest in and not to zombie companies.

Finally, the right allocation of NGEU funds will, to a great extent, depend on the sector in which their impact is potentially greatest. It would seem that the government is not taking this issue seriously enough. The 2021 national budget includes 1,350 million euros, 83 percent of which—i.e. 1,057—comes from NGEU funds. However, as the tourism industry points out, this will hardly help as an economic stimulus to one of the sectors that have suffered most during this pandemic, and which is of vital importance to Spain, as it accounts for over 12 percent of its GDP and creates around 14 percent of all jobs[132]. As a matter of fact, a recent manifesto from over 70 companies in the tourist sector has been submitted to the Ministry of Industry, Trade and Tourism arguing that a thorough-going sustainability and digitalization based project would require funding amounting to 5,800 million euros.

The government has responded to such criticism from the tourist sector with various mechanisms, totalling over 25,000 million euros, but these are mostly furlough and loan guarantees from the Official Credit Institute (ICO in Spanish) which are not non-refundable aid. Furthermore, once again, mere "rescue" is not enough. On the contrary, reform is needed to modernise these and other sectors of the economy. For instance, in the case of tourism, these reforms should aim to make Spain a more competitive tourist destination of greater added value enabling it to compete in the medium-term with other regions.

[132]This project was published as a signed manifesto entitled Towards a Sustainable and Smart Tourism 2021-2026.

Conclusion

For Spain NGEU funds are an extraordinary opportunity not only to recover from this crisis and create employment, but also to give a new modernising boost to the Spanish economy. However, if this is to happen, Spain must prioritise pragmatism over ideology and long-term societal improvement over short-term electoral gain—at both national and regional levels. This is perhaps too much to ask of any government but nonetheless, it is what is needed in the light of the pressing circumstances, exemplified by the horrendous shape of the Spanish labour market, in particular.

At the same time, for the impact of these funds to be maximised, effective institutional mechanisms are essential, and therefore a reform of the public administration, with a particular focus on efficiency procedures and public-private partnership, must be undertaken.

Finally, making the most of this opportunity also implies the right allocation of resources between the various sectors of the economy—i.e., speaking of employment in Spain is to speak of the service sector and, in particular, of tourism. However, this allocation must strictly follow the EU Commission's hard lines, which means not only rescuing industry and job creation, but also modernisation, which would create more stable and better quality long term jobs, in a more sustainable labour market. Will the NGEU funds manage to heal Spain's Achilles' heel? Only time will tell.

XII
UPSKILLING AND RESKILLING CAN THEY MAKE A DIFFERENCE IN POLAND?

Barbara Wieliczko

Upskilling and reskilling – can they make a difference in Poland?

Introduction

In the years prior to the onset of the COVID-19 pandemic the Polish labour market was described as an employee market featuring continuous growth in salaries and a decreasing unemployment rate. In numerous branches of the economy there were labour shortages mitigated in many sectors by the inflow of foreign labour force, mainly from the Ukraine and Belarus. The outbreak of the COVID-19 pandemic suddenly changed the Polish labour market situation but even without this it has long been plagued with significant and varied structural problems. The COVID-19 pandemic has exacerbated these problems. If it is well used, the Next Generation EU programme will help Poland effectively target labour market problems that may otherwise significantly obstruct Poland's socio-economic development, in both the short- and long-term.
The Polish experience of EU funds can be summarized as "absorption first". This means that measures focus on the lowest fruits on the tree to ensure that the funds allocated are fully spent. The need to support human capital growth in Poland was appreciated right from

the beginning of Polish EU membership, as the country's unemployment rate was then much higher than in the Western part of the EU.

Thus far, the COVID-19 pandemic has most affected young people entering the labour market as well those working in most service sectors and on temporary contracts. The shrinking of the economy may usher in more serious problems to a larger proportion of the labour force. Undoubtedly, already existing uncertainties characteristic of many economic sectors have increased and will remain a marked feature of the Polish economy long after the pandemic has ended.

Any long-term analysis of the Polish labour market shows that lack of supply is a more important issue than lack of demand, together with a skill mismatch between the two.

EU funds in support of the Polish labour market to date

Currently a third operational programme devoted to supporting human capital is being implemented. The scale of funds allocated to these programmes is as follows:

• Sectoral Operational Programme Development of Human Resources 2004-2006 – EUR 2.0 billion;

• Operational Programme Human Capital 2007-2013 – EUR 11.4 billion;

• Operational Programme Knowledge, Education and Development 2014-2020 – EUR 5.5 billion.

In addition to these programmes some other EU co-financed programmes have also encompassed measures related to the labour market including regional operational programmes, rural development programmes and those targeting fisheries.

A comparison between the unemployment rate at the advent of the first EU co-financed programme targeting the labour force in Poland with the pre-Covid-19 pandemic rate shows that great progress Poland has been made in improving the labour market situation. At the end of 2003 (the year before Poland joined the EU) the unemployment rate was 20%, while at the end of 2019 it had dropped to 5.2% (at the end of 2020 – 6.2%)[133]. Yet, numerous structural problems have remained and with the fast progress of modern technologies and an aging society the labour market in Poland is currently facing new challenges.

A comparison of the priorities and challenges faced at the onset of each of the ESF co-financed programmes shows that key challenges and priorities have not changed in almost two decades. This may be both a sign of the extent of these challenges and a result of the inefficacy of the policy measures adopted to tackle these challenges. Without commenting on which of the two is responsible, it is clear that the challenges faced are so generalised as to be applicable to most EU member states. Thus, actual impact and future needs can only be identified after more detailed analysis of the results and measures. It would seem that significant progress has been made in numerous areas, but that some problems have not received enough institutional support for tangible progress to have taken place. EU funds do not alter the institutional or legal framework and cannot influence other relevant policies and market structures. Therefore, their effectiveness is limited

[133]Statistics Poland, Unemployment rate 1990-2020. Access: https://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/stopa-bezrobocia-rejestrowanego-w-latach-1990-2020,4,1.html

and can be enhanced only by accompanying state activity – changes in the law and other state policies.

Polish labour market problems in need of tackling

Low labour efficiency can be considered to be the Polish labour market's key problem and perhaps that of the economy as a whole. This has significantly improved in recent years. In the 2010-2019 period it rose from EUR 19,555 to 26,672 PPS[134]. Yet, it is still below the EU average. The factors potentially responsible for this are manifold and include significantly lower wages than the EU average and low innovation and capital input.
As has been set out in the European Commission's country specific recommendations almost every year in the 2013-2019 period[135], one of the country's labour market and adaptability problems is excessive employment instability. This relates to both temporary contracts and a higher than the EU average share of self-employed people. Yet, in the 2020 recommendations, in the midst of the COVID-19 pandemic, an increase in labour market flexibility was called for[136].
Another key Polish labour market issue is the aging of the population. This problem is exacerbated by a low retirement age and low labour market presence of the over 65s. This is the result of a range of factors, among which the most important are: poor health, limited employer willingness to hire the elderly, low labour supply flexibility (limited numbers of part-time and flexible time jobs), generally bad human relations at the workplace and family obligations – taking care of grandchildren or elderly parents. Therefore, in 2019

[134]Ewalu (2020), Analiza społeczno-gospodarcza wraz z diagnozą obszarów interwencji EFS. Raport przygotowany na zlecenie Ministerstwa Funduszy i Polityki Regionalnej, Warszawa, p. 27.
[135]Example: European Commission, Recommendation for a Council recommendation on the 2019 National Reform Programme of Poland and delivering a Council opinion on the 2019 Convergence Programme of Poland, COM (2019)521.
[136]European Commission, Recommendation for a Council recommendation on the 2020 National Reform Programme of Poland and delivering a Council opinion on the 2020 Convergence Programme of Poland, COM(2020)521.

only 8.6% of men and 3.4% of women aged 65+ were active on the labour market[137].

The gender gap is also a serious problem. Contrary to the majority of EU member states this is more visible in terms of the share of women active on the labour market than in pay differentiation terms, however this gap has been increasing in recent years due to the growing popularity of part-time employment.

The Polish labour market situation is highly sector specific. It is in the most socially vital sectors – healthcare and education – that the situation is the most problematic due to a lack of highly qualified experts. Labour shortages are the result of poor labour conditions, low remuneration and the low status of these professions (excluding specialised medical doctors). Thus, the average age of teachers (especially in vocational specialisations) as well as nurses and doctors in many institutions and specialisations is higher than the retirement age in Poland. This calls for immediate action as these professionals cannot be replaced by migrants.

What do we know so far about EU fund based plans to support the Polish labour market in the years to come?

The Polish government has not yet presented its National Recovery Plan, so the approach to be used and their extent is still unknown. The plan is expected to be ready for public consultation by the end of February which does not leave Poland much time for modifications before the European Commission submission

[137]Ewalu (2020), Analiza społeczno-gospodarcza wraz z diagnozą obszarów interwencji EFS. Raport przygotowany na zlecenie Ministerstwa Funduszy i Polityki Regionalnej, Warszawa, p. 27

deadline. The drawing up of the plan is coordinated by the Ministry of Funds and Regional Policy which called on all ministries to submit over 1,200 projects related to different areas of economic activity and public services.

The government's assessment of its human capital support needs is best presented via its Strategy for Development of Social Capital (cooperation, culture and creativity) 2030[138]. This is also the basis for the government's draft partnership agreement for the implementation of a 2021-2027 cohesion policy in Poland[139].

The planned human capital support plans put forward in this draft document include, among others:

• greater access to employment for all job-seekers;
• promotion of self-employment;
• increasing the working capacity of older people;
• promoting equal opportunities for women and men on the labour market;
• supporting the implementation of a comprehensive strategy for the management of migration processes;
• strengthening the potential of labour office staff;
• adjusting job seeking services to the changing labour market;
• improving the mechanisms for the diagnosis and forecasting of demand for skills.

This list shows that identification of the needs of the labour market is correct. The actual impact of this intervention will depend on the amount of funds allocated for specific policy instruments as well as procedures and eligibility criteria.

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[138] Uchwała nr 155 Rady Ministrów z dnia 27 października 2020 r. w sprawie przyjęcia Strategii Rozwoju Kapitału Społecznego (współdziałanie, kultura, kreatywność) 2030.

[139] Ministerstwo Funduszy i Polityki Regionalnej, Projekt umowy partnerstwa dla realizacji polityki spójności 2021-2027 w Polsce, Warszawa 2021.

Policy recommendations

The extent of the COVID-19 pandemic's impact on the Polish labour market remains to be seen. Yet, one thing can be said with a great deal of certainty – tackling the structural problems identified prior to the pandemic can no longer to be put off as these are dragging the Polish economy down. The parts of the Polish labour market most in need of significant support and/or structural changes are manifold. The key recommendations relating to areas requiring public intervention as well as the instruments and legal changes needed include:

• remodelling the functioning of public employment services at all levels. These need to be made more proactive and flexible. This requires both legal changes to policy instruments and implementation rules as well as the reskilling and upskilling of the employees of these institutions to empower them with the skills required for this task. Special attention must be paid to the less employable long term unemployed, those with special needs and those whose qualifications do not match current market requirements;

• in the area of public employment services, a special focus must be put on developing job advisory services for all adults – those seeking employment as well as those already in work so that their skills can be used most effectively to prevent future labour market difficulties due to outdated skills and knowledge and structural labour market changes;

• the digitalisation of public employment services. This would make it quicker and easier for potential employers and employees to find each other. It would also enable speedier cooperation between the separate units of these services potentially resulting in a higher rate of supply-demand matching and thus lessening the problem of a mismatch between the two;

• a demand bottom-up approach to the support instruments. Both policy measures and legal regulations related to the labour market need to be shaped by the actual needs of the labour market. As employer and employee needs tend to be, or at least to be seen as, contradictory, it is the state's role to act as a mediator, ensuring that neither is excessively exploited;

• further adjustment of vocational education and training to the needs of the labour market must be ensured. The socio-economic needs have been changing rapidly and this must be reflected in the educational system at all levels and dimensions. The labour market institutions must work in tandem with the institutions responsible for the functioning of the educational system as a whole to ensure educational supply corresponds with labour market requirements. This also relates to the reskilling and upskilling of teachers at all levels of education to enable them to make full use of the Internet and other technologies to facilitate teaching and learning processes as well as the skills to be acquired by students;

• a special focus on adult education is required. Lifelong learning is still not popular in Poland. People overburdened with work and family related responsibilities can hardly find time to continue their education. Moreover, employers do not receive sufficient incentives to offer their employees reskilling or upskilling vocational training in a belief that this would be a waste of time and money given the high labour market turnover;

• support for migrant employees must be offered via a system recognising the qualifications of those seeking employment in Poland. The lack of a migrancy policy limits their employability in Poland and thus undermines the potential benefits to the Polish economy constituted by these workers;

• given the wide regional diversity in the Polish labour market the measures implemented must be tailored to the specific needs of the regions and their inner diversities. This recommendation is in line with the demand-based and bottom-up model of designing and implementing labour market policy.

This whole analysis of the needs of the Polish labour market can be summed up in just one word: flexibility. Stock must urgently be taken of the rapidly changing economic situation and demands by all stakeholders and all policy instrument and legal regulation levels.

In response to the question posed in the title, the Next Generation funds allocated to the reskilling and upskilling of Polish employees could significantly contribute to adjusting their skills to the demands of the modern labour market and to supporting Polish economic recovery.

SECTION IV
INNOVATION, DIGITALIZATION AND ENERGY

XIV
DIGITAL TRANSFORMATION, EMPLOYMENT AND SKILLS

Joao Cerejeira

Introduction

Digital transformation is the process of creating or modifying processes, products and services with digital technologies such as computers, the Internet, digital platforms, robots, machine learning and other forms of artificial intelligence and big data. This process generates opportunities and drives long-term value and productivity. However, it also implies significant economic and social challenges, primarily in labour market and social protection and welfare policy terms.

The digital transformation opportunities arise from new jobs generated not only directly in the ICT sectors, but also indirectly through improvements in productivity led by production cost and real price reductions, resulting in higher incomes and demand in other, non-ICT, sectors.

Nevertheless, rapid technological progress and innovation can constitute a threat to employment. This is not a new concern: Keynes defined technological unemployment as the "…unemployment due to our discovery of means of economising the use of labour outrunning the pace at which we can find new uses for labour."[140] However, he saw this as a temporary imbalance and believed that technological progress would lead the world to a brighter future in the long run.

While the future is virtually impossible to foresee, the speed of technological progress and automation may result in labour being substituted in routine tasks, beyond the automation which is the norm in standardised manufacturing production lines[141]. Routine service or administration tasks, such as accounting or logistics requiring cognitive skills may be substituted by digital technologies. This poses the question as to whether workers will be able to adapt to these new tasks, namely whether the labour force possesses the skills demanded by digital transformation.

Technological change, employment and skills for the digital economy

The impact of the technological changes associated with the increasingly frequent use of information and communication technologies over the last thirty years is a much-studied and well-documented phenomenon in the economic literature, particularly as regards their impact on the labour market. The Skill-Biased Technical Change (hereafter SBTC) hypothesis[142], referred to by its authors as the "canonical model", can be summed up as follows: jobs can be classified according to workers' skills, typically by selecting two distinct categories: skilled (highly-educated) and unskilled (under-educated). Highly skilled workers benefit from new technologies, because their skills and ICT are comple-

[140] Keynes, J. M (1932). 'Economic Possibilities for our Grandchildren (1930)'. In Essays in Persuasion (pp. 358-373). Harcourt Brace.
[141] Morandini, M. C., Thum-Thysen, A., and Vandeplas, A. (2020). 'Facing the Digital Transformation: Are Digital Skills Enough?' (No. 054). Directorate General Economic and Financial Affairs (DG ECFIN), European Commission
[142] Acemoglu, D., and Autor, D. (2011). 'Skills, tasks and technologies: Implications for employment and earnings'. In Handbook of Labor Economics (Vol. 4, pp. 1043-1171). Elsevier.

mentary, while the lower-skilled tend to be substituted by them, which would seem to be a "skill-bias" in the evolution of labour demand[143]. Therefore, technological improvement has a monotonically upgrading effect on occupational structure in skill terms: the higher the level of skill, the greater the increase in demand for labour.

But SBTC cannot alone explain the decline in the share of middle wage occupations relative to high and low wage occupations documented in several advanced economies at the turn of the century. This phenomenon has been called "job polarisation"[144]. Autor, Levy and Murnane (2003)[145] proposed a different approach, the Routine Biased Technological Change hypothesis (hereafter RBTC), in which tasks are allocated to labour or capital depending on their comparative advantages. Technological developments, including artificial intelligence, robotics and, more generally, advances in ICT, have made replacing workers performing the routine tasks historically the preserve of low and middle skilled workers by machines possible. This process is also driven by a falling computer capital price. The most tangible result of this process is a decline in employment, and subsequently in wages, in routine-task-intensive occupations. These are occupations involving following a set of well-defined or codified procedures which can thus be replaced by computers or relocated to countries with comparative labour cost advantages.

The innovative aspect of this model is that it predicts

[143]Katz, L. F., & Murphy, K. M. (1992). 'Changes in relative wages, 1963–1987: supply and demand factors'. The Quarterly Journal of Economics, 107(1), 35-78.

[144]Goos, M., and Manning, A. (2007). 'Lousy and lovely jobs: The rising polarization of work in Britain'. The Review of Economics and Statistics, 89(1), 118-133.

[145]Autor, D., Levy, F., and Murnane, R. J. (2003). 'The skill content of recent technological change: An empirical exploration'. The Quarterly Journal of Economics, 118(4), 1279-1333.

that computerization's effect on labour demand will be non-linear. Empirical evidence supports the RBTC hypothesis, showing that workers involved in these routine tasks tend to be centrally located in wage distribution terms, mostly working in occupations associated with industrial operations or intermediate-level administrative functions. On the other hand, workers in less specialized professions which are less likely to be automated, such as some service sector occupations (catering and personal and domestic services, for example), are found in the first wage distribution percentiles. Finally, the most complex and primarily knowledge-intensive task-based occupations, such as management, or information and communication technology specialists, tend to fall under the highest wage distribution percentiles. The upshot of this is labour market polarisation characterised by a progressive concentration of employment in high-wage or low-wage occupations, while employment in intermediate-wage professions tends to decrease. For example, in the 16 countries studied by Goos et al. (2014), from 1993 to 2006, employment in intermediate wage occupations decreased across all 16 countries, with an average decrease of 8 percentage points, while employment in high or low wage occupations increased in most countries.

Empirical applications of the RBTC hypothesis require micro-level data with information on workers' tasks and a task aggregation and classification framework. Biagi and Sebastian (2020) use four different data sources, three based on self-reported information from worker skills and working conditions surveys (EWCS, PIAAC, PDII) and a direct measure, drawing on occupational databases based on expert assessment (O*NET), to generate different and comparable relative routine intensity (RTI) index measures across the European Union[146].

The authors have constructed a unique country-specific routine task intensity index (RTI, following Autor and Dorn, 2013). The RTI index value increases when routine tasks are more widespread and decreases when non-routine manual and abstract tasks are prevalent. Table 1 summarizes the main findings with northern European countries, Luxembourg, and the Netherlands, showing the lowest relative routine intensity values, while eastern Europe and some Mediterranean countries, namely Greece, Cyprus, Spain and Portugal, show the highest routine intensity values.

These results confirm previous European Investment Bank research findings (EIB, 2019) showing that regional divergence will intensify, as routine jobs tend to be more concentrated in regions already lagging behind. If digital technologies substitute routine tasks, countries with higher routine task intensity will face a dramatic shift in the skills required to fulfil the demands of digital transition.

Figure 1 is a cross-EU country comparison routine task intensity index (computed as a simple average of the four RTIs indexes presented in Table 1) with the digital skills of each country's active population.

[146]The Princeton Data Improvement Initiative (PDII) is a US survey. The Programme for the International Assessment of Adult Competencies (PIAAC) and the European Working Condition Survey (EWCS) are both European surveys. O_NET is a database of occupational requirements and worker attributes developed under the sponsorship of the US Department of Labor/Employment and Training Administration (USDOL/ETA).

	EWCS	PIAAC	PDII	O_NET
The five countries with the highest RTI indexes	Greece	Bulgaria	Slovakia	Bulgaria
	Cyprus	Portugal	Bulgaria	Slovakia
	Latvia	Slovakia	Hungary	Poland
	Spain	Poland	Portugal	Hungary
	Portugal	Hungary	Latvia	Slovenia
The five countries with the lowest RTI indexes	Norway	Luxembourg	Luxembourg	Luxembourg
	Netherlands	Norway	Norway	Netherlands
	Denmark	Sweden	Sweden	Norway
	Germany	Netherlands	Netherlands	United Kingdom
	Ireland	United Kingdom	Denmark	Denmark

Table 1: The five countries with the highest and lowest RTI indexes
Source: Biagi and Sebastian (2020)

Countries in the fourth quadrant, located in Eastern Europe or the Mediterranean, face not only high routine task intensity indexes, but also a lack of workforce digital skills. These countries' abilities to reap the benefits of ongoing digital transformation are limited, not only because of the additional effort required for them to upgrade their firms, but also in terms of reskilling their workforces. In addition, low digital skill levels, as compared to the European average, can delay the dissemination and adoption of new technologies, limiting investment in high-value added sectors and thereby compromising productivity growth.

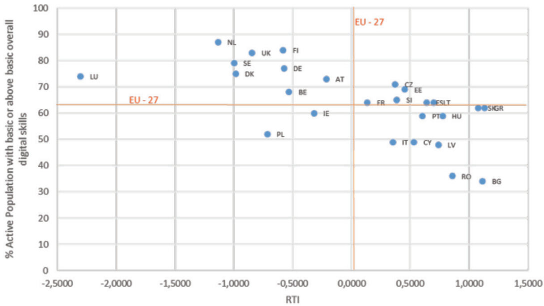

Figure 1: Routine Task Intensity vs Digital Skills in Active Populations (2019)
Sources: RTI - own computations, based on Biagi and Sebastian (2020). The percentage of individuals with basic or above basic overall digital skills in the active labour force – EUROSTAT (table isoc_sk_dskl_i).

Education and training for a digital society

New technologies and digital transformation may widen inequality if high-skilled workers and capital owners capture the greatest shares in income generated by innovation and in the presence of a lower marginal propensity to consume. In this event, the effects of positive demand on non-automated sectors, such as labour intensive ones, cannot compensate for employment losses caused by technological displacement.
The degree to which digitalization can cause unemployment may be a matter of debate, but there is no

doubt that a break-up at the individual job level will take place. The change will need to be managed: some occupations will disappear, others will be created, and yet others will undergo profound task transformations. The impact will be felt to the greatest extent by workers assigned to routine tasks, whose jobs may be replaced in the medium term by advanced digital technologies such as artificial intelligence and automation.

The transformation currently underway requires changes to existing social protection systems. These should focus not only on supporting more traditionally vulnerable groups, such as children, the elderly and the unemployed, but also target those working in occupations which will become obsolete in the medium term. A shift from traditional forms of education and training to lifelong education will be critical. To this end, the institutional rigidity of many of the current education and training systems will need to be overcome, adapting contents not only to the development of cognitive skills, but also to non-cognitive skills, as has been evidenced in recent literature and policy recommendations.

XV
ECONOMIC STRATEGIES AND INNOVATION: A COLLECTIVE EFFORT FOR CLIMATE POLICY

Ruben Oude Engberink

Introduction

Climate change and the policies related to it are hot topics nowadays. The COVID-19 pandemic is widely seen as a wake-up call for effective large-scale climate policies to be finally implemented. COVID-19 is a global-scale danger to the health of many. It has increasingly led to a call for action to be finally taken on a dormant problem whose severity has increased over recent decades. As far back as 1988, the International Panel for Climate Change was set up with the goal of coordinating and integrating research on climate change and providing input for policy making. A great deal is now known about the vast effects of climate change and global warming. Limiting global warming would reduce risks (e.g., risks related to ecosystems, biodiversity, health, economic growth, etc.) exponentially[147]. Now that we are aware of the risks, we might expect that everything possible would have been done to avert the negative consequences of climate change. So why has this not been the case?

The problem with implementing effective climate po-

[147] PCCD. (2018). Summary for Policy Makers of IPCC Special Report on Global Warming of 1.5°C approved by governments. The Intergovernmental Panel on Climate Change.

licy is that it requires collective effort and this comes at a great cost. Whose responsibility is it? And who will bear the significant costs bound up with implementing such policies? The leaders of the world's most powerful nations are currently stepping up to do so. Joe Biden rejoined the Paris Climate Agreement just hours after being sworn in as president of the United States[148]. The Chinese president Xi Jinping has issued an explicit promise that China will be carbon-neutral by 2060, with China currently being the biggest CO2-emitter, accounting for approximately 28% of global carbon emissions[149]. The European Union (EU) has sought to take a leading role in this over recent years. The time is now ripe for the EU to translate this intention into concrete and effective action. This is crucial if climate change is to be combatted, but also in political and economic terms if the EU is to retain its prominent geopolitical role. The EU has already made a start with the Green New Deal (GND) which addresses climate policy issues whilst improving the socio-economic status quo for member states. The GND promises a 'modern, resource-efficient and competitive economy' with zero net greenhouse gas emissions by 2050 and a decoupling of economic growth and resource use[150]. The GND is an important first step in the direction of effective climate policy at EU level. However, effective collective action must be taken sooner rather than later. Climate change is an urgent matter. At the same time, the EU needs to be at the forefront of climate policy if it is to retain its geopolitical importance.

The EU has made huge sums available for appropria-

[148]Oliver Milman. (20 Jan. 2021). Biden returns US to Paris climate accord hours after becoming president. The Guardian. Retrieved from: https://www.theguardian.com/environment/2021/jan/20/paris-climate-accord-joe-biden-returns-us
[149]Matt McGrath. (22 Sep. 2020). Climate change: China aims for 'carbon neutrality by 2060'. BBC. Retrieved from: https://www.bbc.com/news/science-environment-54256826
[150]European Commission. (n.d.). A European Green Deal: Striving to be the first climate-neutral continent. European Commission. Retrieved from: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

te socio-economic recovery from the COVID-19 crisis, with sustainability and improved adaptation to digitalization goals in mind. It is to cover these that the Next Generation EU fund was put forward. 'NextGenerationEU is a €750 billion temporary recovery mechanism designed to help repair the immediate economic and social damage wrought by the coronavirus pandemic. Post-COVID-19 Europe will be greener, more digital, more resilient and in a better position to take on current and impending challenges'.[151]

This article will argue that collective effort by the EU is required, although this is not in itself a ground breaking statement. Firstly, the EU's fundamentally important role in setting the climate policy agenda will be discussed. Subsequently, I will explain why individual action (i.e., at the nation state level) is ineffective before putting forward certain policy making trajectories and the member state participation this requires. A collective EU carbon tax will be proposed, the role of the public and private sectors discussed and, in contrast to the lion's share of modern criticism, I will argue that limiting market mechanisms will not generate the desired outcomes. Lastly, I will discuss the consequences for member states and what is required of them.

A fundamental basis for EU climate policy

Over recent decades, we have witnessed multiple (global) efforts to tackle the climate change quandary. The Copenhagen agreement was ratified in 2009 and the Paris agreement followed in 2015. Additionally, in

[151]European Commission states this on its website in the section elaborating on the EU recovery plan. Retrieved from: https://ec.europa.eu/info/strategy/recovery-plan-europe_en#nextgenerationeu

2015, 193 countries ratified the UN's Sustainable Development Goals to be achieved by 2030. Problems have arisen from free-riding issues, an unwillingness to act, and a lack of coherence between member states[152]. At the same time, the problem with these agreements is that they are either non-binding or unenforceable. It has thus become clear that effective policy outcomes have so far escaped policymakers. The issue is not that there is individual state opposition to climate policy but that collective action and transformation are needed if effective climate policy is to be implemented. The difficulty lies in achieving collective action[153].

We know that collective action is required and it makes pragmatic sense for this to be organized at EU level. There are, however, more fundamental reasons why the EU specifically needs to organize effective collective action. First of all, the Treaty on the Functioning of the European Union explicitly states that European Union policy must preserve, protect and improve the environment[154]. Moreover, the principle of subsidiarity is anchored in the European Union treaty. 'Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level'[155].

[152]See, for example, Bättig, M. B., & Bernauer, T. (2009). National institutions and global public goods: are democracies more cooperative in climate change policy?. International organization, 281-308. Another example: See, for example, Groen, L., & Niemann, A. (2013). The European Union at the Copenhagen climate negotiations: A case of contested EU actorness and effectiveness. International Relations, 27(3), 308-324.
[153]See, for example, Bamberg, S., Rees, J., & Seebauer, S. (2015). Collective climate action: Determinants of participation intention in community-based pro-environmental initiatives. Journal of Environmental Psychology, 43, 155-165.
[154]Consolidated version of the Treaty on the Functioning of the European Union. Part Three – Union Policies and Internal Actions. Title XX – Environment. Article 191 (ex Article 174 TEC).
[155]Consolidated version of the Treaty on European Union. Title I – Common provisions. Article 5 (ex Article 5 TEC).

All in all, the principle that action is to be taken at EU level is a cornerstone of the European Union. Since it is an established fact that climate policy has to be a collective effort if it is to be successful, the EU has an obligation to tackle it. We will now look at why implementing effective climate policy is so difficult and why a purely market-based approach fails to account for the negative byproducts of production.

Externalities

Externalities are the main hurdles in the way of effective climate policy and have to be overcome via collective action. Under normal circumstances, the costs arising from production are an integral part of the price paid for output (i.e., the product). Externalities, on the other hand, are not an integral part of product prices. Negative byproducts (e.g., greenhouse gas emissions, using depletable resources, etc.) are not inputs incurred by producers, but they do arise during the production process. It is desirable that these externalities do not take place or otherwise that someone is held responsible for them.

Harmful environmental externalities are often barely visible and difficult to measure and it is thus difficult to hold firms accountable for the negative externalities they cause. This essentially boils down to a final price which does not encompass the costs of these externalities.

Who should thus keep firms accountable in order to ensure these costs are incorporated? The obvious answer is the state. It should be up to governments to ensure that externalities are paid for by those who cause them, via taxes. The issue with externalities related to climate change, global warming and depleting limited natural resources, however, is that they do not respect national borders (i.e., they are geopolitical problems requiring a supranational solution) and the information required for externalities to be priced is difficult to obtain and make use of. If a single government, say the Dutch government, taxed producer emissions in the Netherlands, its producers would simply move onto other countries where such taxes do not exist. Collective effort is therefore needed. It is only collective policy which can have the desired externality pricing effect.

The Climate Club

The EU has already sought to price negative environmental externalities with a European plastics tax and the so-called *carbon border adjustment mechanism*.[156] This is a good start and should be one of the main pillars of future policy making. The carbon border adjustment mechanism is part of the Green New Deal and has been described by the European Commission as follows: 'Europe's efforts to go climate-neutral by 2050 could be undermined by lack of ambition by our international partners. This would mean a risk of carbon leakage. This occurs when companies transfer production to countries that are less strict about emissions. In such case global emissions would not be reduced. This new mechanism would counteract this

[156]Sam Fleming & Jim Brunsden. (25 May 2020). Brussels looks to new taxes to pay off pandemic recovery debt. Financial Times. Retrieved from: https://www.ft.com/content/e4ca5b01-9b26-413a-bbb9-960db6b5914a

risk by putting a carbon price on imports of certain goods from outside the EU'[157].

This is compatible with the Climate Club proposed by Nobel Prize winner William Nordhaus, involving collective greenhouse gas emission taxation. Nordhaus has not specifically called on the EU to take this action, but what has been described in this article thus far means that it makes perfect sense for this to be applied at EU level[158]. Extending this collective carbon tax to natural resource depletion could also be proposed. Implementing such a policy would obviously cause problems, such as data collection and the use of information to establish appropriate taxation but this should not justify inaction. The barriers would be removed with a transparent decision-making scheme established upfront to clarify how decisions are made and when legislation can be toned-down when this is deemed necessary.

It is important that a policy with such wide-ranging implications should be implemented at EU level and it should not tax EU producers only, but also apply to imports. Firms would then have no incentive to move production to places where production is cheaper and legislation less stringent. The essence of such taxation is that those causing externalities must pay for them, either through higher taxation or finding better ways to produce. Because one of the desirable consequences of a *Climate Club* is that firms have an incentive to innovate. Taxing emissions and the use of natural resources implies higher costs which means that firms

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[157]European Commission. (2020). EU Green Deal (carbon border adjustment mechanism). European Commission. Retrieved from: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12228-Carbon-Border-Adjustment-Mechanism

[158]William Nordhaus. (May/June 2020). The Climate Club: How to Fix a Failing Global Effort. Foreign Affairs. Retrieved from: https://www.foreignaffairs.com/articles/united-states/2020-04-10/climate-club

are incentivized to find new ways of lowering production costs with fewer effects on the environment. This will be discussed further below.

The role of the public and private sectors

It has frequently been argued that curtailing capitalism (i.e., what critics call the "unregulated market mechanism") is the way to solve environmental problems and that consumption and production should be limited. It has also been suggested that economic growth and climate policy are incompatible[159] and that we should move to a system where it is the environment which is the priority rather than economic growth[160].

Such critics tend to forget that the market is a place that ensures efficient outcomes via a continuous process in which suppliers adjust to demand. The market mechanism brings supply and demand together in a way that is impossible with central planning. Individuals (or entities) enter into transactions voluntarily. Producers must satisfy consumer demand, or their raison d'être ceases to exist. In so doing they generate the profits required for firms to remain in business. Simultaneously, consumer demand embodies consumer values. Continuous adaptation to changing demand requires producers to innovate if they are to compete with their rivals (assuming competition is regulated and artificial monopolies averted). The increasing importance of values related to sustainability and environmentally friendly production requires producers to keep searching for methods that accord with these

[159]This is what Naomi Klein. (2014) suggests in her book This Changes Everything: Capitalism vs. the Climate.
[160]This is what Kate Raworth. (2017) suggests in her book Doughnut Economics: Seven Ways to Think Like a 21st Century Economist.

values. Not only must producers adjust to these values, they must also account for input scarcities (e.g., commodities, land, etc.). Scarcity should mean higher prices because limited input availability means scarcer and thus more expensive inputs. Producers have to innovate to keep end-products affordable. In this way, a natural process should result in more sustainable and cheaper production methods.

As we have seen, demand embodies consumer values, i.e. what they want from products/services. Since consumers increasingly require suppliers to deliver in sustainable ways, green labels have gained in popularity over the years. However, green labels are often simply a matter of greenwashing. Firms not engaging in environmentally friendly behavior get green labels all the same. It is up to the EU to create clear, fair guidelines for green label use to help consumers to make the choices they want to make.

Over recent decades we have witnessed attempts to limit production and consumption failing to achieve the desired results. And partial reliance on the market has already been shown to work, as Andrew McAfee, professor at the *Massachusetts Institute of Technology, has described in his book More from Less*.[161] McAfee has shown that progressively fewer inputs are being used whilst economic growth is still increasing exponentially. This is what he calls the dematerialization surprise. Production and consumption are not limited, but production inputs decrease. This is the outcome of technological progress at least partially enabled by

[161]Andrew McAfee. (2019). More From Less: The Surprising Story of How We Learned to Prosper Using Fewer Resources – and What Happens Next.

market mechanisms. Rather than focusing on limiting consumption and regulating the market, he argues, a focus on dematerialization is more fruitful.

This dematerialization process can be stimulated by joint public-private action. Private sector entities innovate, and continue doing so to fulfill market demands. Simultaneously, governments can invest in essential research which is too risky for the private sector. This provides new input for technological progress on behalf of the private sector, and leads to more sustainable production technologies. Not only are public-private partnerships an efficient and effective way of doing this but joint working between European research institutes and the private sector can lead to epistemic synergies, speeding up technological development and innovation progress.

The argument is to enable the private sector to play an important role by reaping the benefits of publicly funded research, giving it access to developed technologies that are the result of publicly funded research. Certain investments in fundamental research are just too risky for the private sector because of the high costs and uncertain outcomes involved. As Mazzacutto has argued in her book *The Entrepreneurial State*[162], the private sector profits, sometimes enormously, from exploiting the technologies resulting from publicly funded research. One of Mazzacutto's main conclusions is that firms thus benefitting should pay more taxes. These findings can also be looked at from another perspective, however. If such firms really do be-

[162]Marina Mazzacuto. (2013). The Entrepreneurial State.

nefit from exploiting these technologies, why do we not establish more such partnerships in a coordinated way, ensuring that fundamental research is carried out, and publicly funded if it is too risky for the private sector, with the latter being allowed to exploit these new technologies on the market and pay taxes to fund public expenditure such as research. Tax incomes such as these can then, in turn, be used to invest in new research. Coordinated effort of this sort results in a self-reinforcing cycle in which the public and private sectors complement one another. The institutional benefits to both governments and the market mechanism are thus channeled into the desired outcome of counteracting climate change, global warming and natural resource depletion.

Collective climate policy ≠ political unification

This article has set out several effective climate policy approaches. A clear case for joint European action has been made with the Climate Club proposal and knowledge sharing, based on the fact that environmental damage and dangers do not respect national borders. Only a collective approach can be effective. However, this does not mean that we should move in the direction of a United States of Europe in other respects. Climate change, global warming, and natural resource depletion require collective action. Either we act together or we will not make the necessary progress. This does not mean that the European Union needs to proceed to political unification in other respects, too. Climate policy – and climate policy alone – should be tackled by the European Union as a whole.

Conclusion

This article has argued that the EU has a fundamental role to play in establishing effective climate policy. Climate change, global warming and natural resource depletion are incontrovertible problems requiring urgent action. It has been shown that responsibility for initiating action is a cornerstone of the EU and also sustains and improves the European Union's position on the geopolitical stage. The externality issue requires a collective supranational approach. The *Climate Club* has thus proposed extending the *carbon border adjustment mechanism* in order to ensure firms pay for the negative externalities they cause. The roles of the private and public sectors have also been discussed. A focus on innovation and development generated by the two sectors complementing one another can go hand in hand with economic growth and thus speed up the process of technological progress and dematerialization. Lastly, we have examined the shared burden of the costs incurred, making the case for a collective approach to climate policy not entailing broader European Union political unification. Climate policy must be collective if it is to be effective, but should not imply wider political unification.

XVI
"NEXTGENERATION EU, PORTUGAL AND THE FUTURE OF EUROPEAN UNION ENERGY TRANSITION AND INDEPENDENCE"

Ricardo Silvestre

The European Union finds itself at a crossroads. Energy availability and independence are crucial for economic growth, but also to resolve the security dilemma of being energy dependent of countries with illiberal and authoritarian tendencies. The recovery fund NextGenerationEU points the path forward, particularly by proposing an energy transition from carbon-based fuels to green hydrogen. While the conditions are build for this to be a reality, natural liquefied gas (NLG) will continue to be a good solution to diversify the energy mix, and have as energy suppliers' countries that are allies of the European Union. As Portugal continues to be an important entry point for NLG in Europe, the government is preparing the way to be a hydrogen producer and exporter to other Member States. With direct access to the Atlantic via a deep-water port in the region of Sines, Portugal has the capability to receive LNG, to serve as a hub for further transit to European ports, and to export hydrogen by maritime routs. This way, Portugal can have a pivotal role in helping the European Union move towards protecting the environment, while assuring competitiveness and sustainability.

At the end of 2021, the European Parliament and Council, with the support of the European Commission, agreed to a budget of 1.8 trillion Euros for a greener, more digital, and resilient Europe. Of this budget, 30% will be spent on combating climate change, via comprehensive packages like NextGenerationEU (NextGenEU) and the Multiannual Financial Framework (MFF). For the 2021-2027 period, the MFF has set aside 750 billion (bln) for NextGenEU, including 10.6 bln for *Single Market, Innovation and Digital,* 721.9 bln for *Cohesion, Resilience and Values,* and 17.5 bln for *Natural Resources and Environment* (European Commission, 2020). The President of the European Commission, Ursula von der Leyen, presented this as a way of further decreasing greenhouse gas emissions by at least 55% by 2030, while at the same time serving to "kickstart a European renovation wave and make our Union a leader in the circular economy"[163]. To achieve this, 37% of the NextGenEU budget will be spent directly on programs and projects within the *European Green Deal*, including renovating and building new infrastructure, developing cleaner transport and logistics, strengthening the *Just Transition Fund* to help business seeking new economic opportunities, investing in renewable energy projects including solar and wind, and "kick-starting a clean hydrogen economy in Europe"[164].

With all this potential in mind, the European Commission launched the *European Clean Hydrogen Alliance,* whose purpose is to generate investments in increased use of hydrogen in Europe, and invest around 430 bln

[163]Von der Leyen, U. (2020, September 16). State of the Union Address by President von der Leyen at the European Parliament Plenary. European Commission. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655
[164]European Commission (2020a, May 27). Europe's moment: Repair and prepare for the next generation. European Union. https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940

Euros by 2030 in this source of energy[165]. Green hydrogen is the producing of hydrogen atoms by electrolysis of water with clean electricity from renewable sources of energy. This is a valid way of incorporating renewable sources into energy needs, and for the decarbonization of industry and mobility, and is already used in several European Union countries, such as the Netherlands, Poland, and France, where hydrogen production is already a focus in strategies tackling climate, energy, and economic growth[166].

Due to its geographic localization and potential for natural resource use – solar, wind, water, and biomass – Portugal is in a privileged position to invest in hydrogen production. Regarding solar energy, the country is in a region of intense solar radiation (between 1500 and 1900 kWh /m2), considerably higher than other European Union countries, in both central and northern Europe.
Regarding wind, Portugal potentially has both inland and offshore sources to explore. There have been substantial investments in inland wind, with more than 261 wind farms (data from 2019), and the development of a pilot zone, in which floating offshore capabilities are being developed[167]. In 2018, renewable sources accounted for 30% of total energy consumption in Portugal, placing the country in the top six in the European Union for use of this kind of energy. In fact, in the electricity sector, increases in incorporation have also been remarkable, reaching 52% in the same year, a 25% increase over 2005, placing Portugal in the top five in the Union in this category.[168]

[165]European Commission (2020c). European Clean Hydrogen Alliance. European Union. https://ec.europa.eu/growth/industry/policy/european-clean-hydrogen-alliance_en
[166]Simon, F. (2020, December 18). EU countries agree to 'rapidly upscale' hydrogen market. Euroactiv. https://www.euractiv.com/section/energy-environment/news/eu-countries-agree-to-rapidly-upscale-hydrogen-market
[167]Presidência do Conselho de Ministros (2020, August 14). Resolução do Conselho de Ministros n.º 63/2020. Aprova o Plano Nacional do Hidrogénio. XXII Governo Constitucional. https://dre.pt/application/conteudo/140346286
[168]Ibid

The progressive use of energy from renewable sources has enabled the country to decrease fossil fuel imports, and, with them, its dependency on external sources potentially affected by political and/or security concerns.

The Portuguese government has even more ambitious hydrogen related goals. For 2030, the objectives are a 10-15% green hydrogen injection into the natural gas network, 2-5% consumption in the industrial sector, 1-5% in land transportation, 3-5% in maritime transportation, and 1.5-2% in final energy consumption. Portugal has been preparing for hydrogen production to move to the forefront of energy investments, via internal policies and European Union incentives. A number of comprehensive documents have been produced on the potential role of this source of energy in the Portuguese economy and industry, preparing the way forward[169]. In August 2020, in preparation for the availability of funds such as NextGenEU, a *National Strategy for Hydrogen* (EN-H2) was presented in which green hydrogen is to be produced exclusively via renewable energy sources. This national strategy presents the benefits of exploring this source of energy as a way of decreasing decarbonization costs, guaranteeing market demand supplies via storage capacity, decreasing greenhouse gas emission by industries that are heavy producers of carbon dioxide (refineries, chemical, metallurgy, ceramics, glass) fostering economic growth, job creation, and an increase in research and development projects (Presidência do Conselho de Ministros, 2020).

[169]Direção-Geral de Energia e Geologia (2019, February). Integração do H2 nas cadeias de valor. Portuguese Government. https://www.dgeg.gov.pt/media/1snnvdag/p2-integra%C3%A7%C3%A3o-do-hidrog%C3%A9nio-nas-cadeias-de-valor-sistemas-energ%C3%A9ticos-integrados-mais-limpos-e-inteligentes.pdf

As we have seen, Portugal's geographical location means that 943 km of oceanic coast can be added to the country's solar, inland and offshore wind capability. And there is also potential for using sea water for hydrogen production. However, this entails a need to develop saltwater use capability for the electrolysis process, or, alternatively, investing in desalinization techniques, a further potential development. Another renewable source is residue water, both domestic and industrial. The benefits of this are twofold, since water treatment facilities have been a source of concerted investment and reside water reuse could constitute a sustainable and environmentally friendly source of hydrogen production. There are 2759 residue water treatment stations and 1611 septic tanks in continental Portugal, meaning, in 2018, 602 million of cubic meters of water treatment (Presidência do Conselho de Ministros, 2020).

Green hydrogen looks to be a good sustainable energy, environmentally friendly market economy solution. It can be produced locally, is easy to distribute and can be used as transport, industry, and domestic fuel. By contrast, natural gas seems to be on a downward trend as regards investments and large-scale policies. In fact, the European Investment Bank recently stated that there is "limited support" for gas investments on the bank's climate roadmap. Also, funding for large-scale heat production based on natural gas, and investment in traditional infrastructures for gas production, came to an end on 1st January of 2021. These measures also relate to power plants. Only those emitting less than

250 gCO2/kWh will be eligible for financial support[170]. However, in the European Union, natural gas still accounts for about a quarter of energy needs. 26% of this is used for energy creation, 23% in industry, and the rest in services and domestic use. The EU's natural gas demand is close to 480 billion cubic meters, and this is expected to remain stable over the coming years[171]. The European Commission estimates that natural gas imports will grow by around 20% by 2040, as compared to 2016[172]. Dependence on natural gas reached 77.9% in 2018, compared to the 74.4% observed in the previous year, and in fifteen Member States this figure exceeds 90%[173].

Apart from energy use considerations, there are also security concerns to consider. One of the main suppliers of natural gas for the European Union is the Russian Federation, which has shown that it is not a reliable commercial and political partner. This is a crucial factor, with eleven Member States in the European Union having natural gas supply connections with the EU's east – Bulgaria, Czech Republic, Estonia, Lithuania, Hungary, Austria, Poland, Romania, Slovenia, Slovakia and Finland – importing more than 75% of the gas Russia sends to the EU (Ellyatt, 2019). To diversify natural gas sources and the energy mix, and safeguard the EU's energy independence, a natural option is liquefied natural gas (LNG), while in a transitional period to other energy sources. In 2019, the European Union imported a total of 108 billion cubic meters of LNG, an increase of 75% over the previous year.

[170] Taylor, K. (2021, January 21). 'Gas is over', EU bank chief says. Euroactiv. https://www.euractiv.com/section/energy-environment/news/gas-is-over-eu-bank-chief-says

[171] European Commission (2020d, June 5). European. liquefied natural gas. European Union. https://ec.europa.eu/energy/topics/oil-gas-and-coal/liquefied-natural-gas-lng_en?redir=1

[172] European Commission (2019, March 8). Liquefied natural gas (LNG) has the potential to help match EU gas needs. European Union. https://ec.europa.eu/energy/sites/ener/files/eu-us_lng_trade_folder.pdf

[173] Eurostat (2019). Natural gas supply statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Natural_gas_supply_statistics&oldid=447636#Consumption_trends

The European Commission believes that "liquefied gas can significantly contribute to the diversification of gas supply" and aims "to ensure that all Member States have access to liquid gas markets" (European Commission, 2020d). In the European Commission's assessment, there is "significant" liquefied gas important capacity, sufficient to guarantee 45% of total gas consumption needs (European Commission, 2020d).

Projects of Common Interest in the European Union include investments in new LGN port terminals and gas pipelines to ensure transit between Member States. This is of particular importance in the light of the fact that most LNG transport in eastern and central Europe is dependent on Russia's Gazprom. Indicators show that trade relations will increase between the two blocks in the coming years[174]. On the other hand, for the European Union, because of historical, social, political, geostrategic and military reasons, the United States is a natural energy diversification and security partner. In January 2019, LNG imports from the United States to the Union were 1.3 billion cubic meters, an increase of 181% over the 120 million cubic meters acquired in January 2018. More joint work is scheduled to take place to complete key infrastructure and improve LNG access and distribution[175]. Here, Portugal can play a fundamentally important role, once again based on its geographical advantages in helping to ensure energy diversification and independence, thereby mitigating the European Union's security dilemma vis-à-vis the Russian Federation.

[174]Korteweg, R. (2018, April). Energy as a tool of foreign policy of authoritarian states, in particular Russia. European Parliament. https://www.europarl.europa.eu/RegData/etudes/STUD/2018/603868/EXPO_STU(2018)603868_EN.pd
[175]Source: see note 172

Its direct Atlantic access makes Portugal one of the main European entry points for LNG arriving from the United States, but also from Qatar and Australia. In addition to its geographical advantage, Portugal is at the heart of inter and intra-ocean LNG routes connecting Europe, Asia, Africa, and the Americas. However, to make full use of LNG entry, in both Portuguese and Spanish ports, the Iberian Peninsula must stop being an "energy island", with an insufficient number of gas pipelines to the rest of Europe. In 2018, LNG terminal usage rates, regarding regasification capacity, were 24%, in Spain and 48% in Portugal.[176]

One way to solve this problem is increasing natural gas transport capability from Portugal to Spain, and then to France. Several projects supported by the European Union aim to increase natural gas transit, such as a compressor station in Cantanhede, a gas pipeline from Cantanhede to Mangualde (TRA-N-285), from there to Celorico da Beira (in Portugal) and then across the border to Zamora in Spain[177]. Another important project is the construction of a gas pipeline from Guitiriz to Zamora (TRA-N-950), and then linking up to the Andradas gas pipeline (in Spanish territory), which will allow gas to be transported from the Iberian Peninsula to France. Another ambitious Project of Common Interest is the MidCat (Midi-Catalonia) gas pipeline[178], one of whose sections crosses the Pyrenees: South Transit Eastern Pyrenees. If this project materializes, then the south of the peninsula will also be connected to the center of Europe, with a network that would link up Barcelona to Huelva, Cordoba and Badajoz, in Spain,

[176]International Gas Union (2018). 2018 world LNG report. https://www.igu.org/app/uploads-wp/2018/07/IGU_LNG_2018.pdf

[177]Redes Energéticas Nacionais (2018). 3rd Interconnection between Portugal and Spain. https://www.ren.pt/files/2018-08/2018-08-09095141_4c65f7f1-2e56-4968-a1af-585420fa64e0$$1a023d9d-e762-427c-8e7c-d5c21194812c$$a801cd83-c051-4001-8c35-99dde04eadb7$$file$$pt$$1.pdf Accessed 2021-01-28.

[178]See note 166

and then cross the border into Portugal and the Port of Sines, the main entry point for LNG in Portugal[179]. The importance of this port in Sines will be the focus of the next section.

Regarding NextGenEU and future gas pipelines or infrastructure investments in LNG and natural gas, a point of order is needed. These initiatives can be included in the Projects of Common Interest, which are supported by funds deriving from budgets such as the Connecting Europe Facility's Fund (EU budget) and the European Bank for Reconstruction and Development[180]. Moreover, in late 2020, the European Parliament decided to include this kind of investment within the scope of the *Just Transition Fund*, and this was ratified on 27th of January 2021 by the European Parliament, as a way of assisting European regions still dependent on this kind of energy[181]. The *Just Transition Fund* is part of NextGenEU, and includes 10 bln Euros, 17.5 bln with the MFF. Valid criticisms have been levelled at using *Just Transition Funds* for infrastructure investment when the system's objective is to support the training of the industry's labor force for conversion to new markets or jobs. A further important question, is the extent to which the present natural gas distribution network can be adapted to transporting hydrogen, without new pipelines needing to be built: up to 20% of hydrogen can be safely injected into existing networks without the need to retrofit pipelines.[182]

[179]Silvestre, R. (2020, June 23). How can Portugal's Port of Sines play a bigger role in assuring energy security in the European Union? Atlantic Council. https://www.atlanticcouncil.org/blogs/energysource/how-can-portugals-port-of-sines-play-a-bigger-role-in-assuring-energy-security-in-the-european-union

[180]Maggiore, M. (2020, October 23). The (in)visible hand of the gas lobby in Brussels. Investigate Europe. https://www.investigate-europe.eu/en/2020/the-hand-of-the-gas-lobby

[181]European Parliament (2020a, October 17). Parliament requests more support for regions to make energy transition a success. European Union. https://www.europarl.europa.eu/news/en/press-room/20200910IPR86816/parliament-requests-more-support-for-regions-to-make-energy-transition-a-success

[182]Taylor, K. (2021a, January 27). MEPs back natural gas as a 'bridge' to 100% renewable hydrogen. Euroactiv. https://www.euractiv.com/section/energy-environment/news/meps-back-natural-gas-as-a-bridge-to-100-renewable-hydrogen

Where energy production, distribution, and consumption by end customers is concerned, whether LNG and/or hydrogen, and Portugal's potential importance in transatlantic relations, European energy market and security, attention has focused on one region in the country. Located on the south-central coast, 58 nautical miles from Lisbon, there is a deep-water port in the region of Sines. This port provides good maritime access, can accommodate any type of vessel and is prepared to handle different types of cargos in modern, specialized terminals[183]. The Portuguese state has, historically, viewed Sines as a key strategic asset, but further investment is now planned to increase its LNG management and large-scale hydrogen production capacity. An industrial unit with an electrolysis capacity of 1GW is set to be developed, and investment in expanding the port to receive larger ships with bigger LNG loads, which could then be sent to the rest of the European continent is underway.[184] Plans for Sines will focus on hydrogen production via solar and wind power, while at the same time investing in local industry and export capability transformation. The main goal is implementing solutions using renewable electricity generation sources in a way that optimizes hydrogen production costs. Regarding transport, hydrogen produced in Sines can be distributed via direct injection into the natural gas network, distributed by land to consumption points (hydrogen stations and end point consumers), and exported via maritime routes with dedicated terminals. As far as LNG is concerned Sines includes a dock with unloading, recirculation and return lines for LNG carriers, capable of discharging

[183]Administração dos Portos de Sines e do Algarve (2020). Port of Sines. http://www.apsinesalgarve.pt/en/ports/port-of-sines

[184]Gonçalves, S. (2020, February 12). U.S. firms keen to expand Portugal's Sines port for LNG trade: energy secretary. Reuters. https://www.reuters.com/article/us-portugal-usa-energy-idUSKBN2062LS

10,000 m3/h for LNG carriers with volumes between 40,000 and 216,000 m3, and seven atmospheric vaporizers with a unit capacity of 64 GWh/day. The nominal emission capacity is 321 GWh/day. As far as loading LNG carriers is concerned, the gas-in and cooling capacity is 1500 m3/h. The LNG terminals are also ready to load tank trucks capable of transporting liquefied gas for regasification units located in Portugal and elsewhere.

The scope of this article is to explore opportunities to develop a South-North "dialogue" based on the opportunities that NextGenEU can provide, and within it on the Portuguese contribution to the European Union energy sector. The potential to act as a green hydrogen producer, and major continental entry point for LNG is potentially an important factor when accounting for energy needs from southern, central and eastern Europe. This could have a multiple effect inside the European Union, increasing the competitivity of the Union's economy vis-à-vis other major blocs like the United States, China, and Mercosur, decreasing energy dependence on authoritarian regimes with illiberal tendencies, and protecting the environment via a decrease in greenhouse gas emissions. Centering on Sines, natural gas resulting from LNG can be transited to Europe via a network of gas pipelines and over land, and the port can be a hub for green hydrogen to be exported to EU Member States. In fact, the Portuguese Government already has protocols with the Netherlands but this could easily be extended to other countries which do not benefit from Portugal's climate advantages regarding the use of renewable sources for green hydrogen production.

The next step for the Portuguese State is legislating for normative and regulatory frameworks, while continuing to implement integrated policy measures to move away from the energy status-quo to a competitive (new) market, with good governance and strategic vision. Liberalizing this emerging energy market needs to be prioritized, something that has historically been difficult in Portugal. This has progressively changed, primarily due to internal and European Union measures designed to make the Portuguese economy more competitive and transnational. Positive signals abound, with private initiative expected as regards competition for funds to develop such technology on national soil. This also links up with the need to develop the labor sector, creating jobs relating to equipment and infrastructure construction and operation, and a secondary supply chain of associated industries. Repurposing infrastructure should also be a policy priority since investments in new gas pipelines may be on their way out. Regarding hydrogen transit, storage facilities and fueling stations need to be built and Sines port's maritime hydrogen transport capability built up.

In the tax policy sphere, the Portuguese government can reduce the taxes and fees associated with green hydrogen production by electrolysis to improve returns on initial investments in the private sector. Fossil fuel subsidies should also be phased out, something that Portugal has been historically bad at, as was reflected by its being nominated the worst country in Europe regarding using taxpayer's money for "dirty energy" in 2018[185]. Some policies have specifically supported renewable energy production and CO2 reducing techniques. One is the *Sustainable Energy Transition* (SDE++) from the Netherlands, as a blueprint to stimulate sectors such as industry, mobility, electricity, agriculture, and the built environment in the shift to hydrogen[186]. There should also be a strong international component in the creation of a global hydrogen market, partnerships in research projects to find the best solutions for infrastructure needs and researching how to make them to scale, seek out the best technical developments, and evaluate the policies and investments best suited to future needs.

Like the European Union, Portugal is at a crossroads. As we have seen, natural gas is apparently being progressively abandoned and substituted by the more environmentally friendly hydrogen. So, while LNG will remain a market and security need solution, this will be short term, as the European Union transitions to carbon-free energy. The Portuguese state thus needs to define the best structural investment strategy ensuring that, whatever funds are used, NextGenEU and others, Portugal's will be a pivotal role in the European Union's environmental protection drive, while assuring competitiveness and sustainability.

[185]Climate Action Network (2018, April 15). Winners revealed at the Fossil Fuel Subsidies Awards 2018. https://caneurope.org/winners-revealed-at-the-fossil-fuel-subsidies-awards-2018/

[186]Netherlands Enterprise Agency (2020). Stimulation of sustainable energy production and climate transition (SDE++). https://english.rvo.nl/subsidies-programmes/sde

XVII
POLAND: ECOLOGICAL AND ENERGY TRANSITION AT THE TIME OF 'CHOLERA'

Marek Szolc

Introduction

As the saying goes: 'every cloud has a silver lining' - or *nie ma tego złego, co by na dobre nie wyszło*, as every Polish person would say. The impact of the Covid-19 pandemic has shaken Poland no less than other EU states and continues to be felt throughout many aspects of the country's social, political and economic life. As the vaccination campaign slowly moves forward, bringing hope that some restrictions may be lifted, many of us are still licking our wounds and getting ready for a new, post-Covid world, a world which may well be shaped by the profound changes promised under the Next Generation EU plan.

Although the Polish economy seems to have taken a far weaker hit than many others in the EU (data available so far suggests a relatively mild recession of 2.6-2.8% in GDP decrease and stable unemployment of 3.3-3.4%[187]), the overall picture is far less rosy: certain branches of the economy have been decimated, governmental aid packages have largely now come to an end and the epidemic itself has been horribly mismanaged. The collapse of the chronically underfunded public healthcare system resulted in surging excess

[187] Central Statistical Office, Socio-economic situation of the country in 2020, Warsaw, January 2021

mortality[188] translating into approximately 80,000 additional deaths between October 2020 and January 2021 (with barely half of them attributed to Covid-19) - and the death toll is still on the rise. Regardless of economic results, recovery will take time, and so will settling up the pandemic debts. The budget deficit in excess of 90 bln PLN is the largest in the country's post-1989 history.

The coronavirus crisis has exacerbated other, equally pressing, problems that Poland has so far failed to address. The country is in dire need of speeding up its environmental transition. Its energy, heating and transport sectors are particularly inefficient, polluting and detrimental to the climate, due to their heavy dependence on fossil fuels, both coal or gas. Unless the Polish state and Polish businesses take advantage of the Next Generation EU package to undertake profound transformation, our high-carbon economy is will soon rapidly lose competitiveness. It is certainly going to have an impact on the rate of recovery, harm resilience to future global crisis (suddenly a much more tangible perspective) and, mid- to long-term, jeopardise the living standards and opportunities of ordinary Poles.

Poland: Next Generation EU beneficiary

Next Generation EU is an instrument put forward by the European Commission to create a sustainable, even-handed, inclusive and fair recovery for member states, facing up to the challenges deriving from the Covid-19 pandemic. The money raised is designed to

[188] Eurostat, Excess mortality in 2020: especially high in spring and autumn, https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20210120-1, access on 15 February 2021

be invested in three mainstays: (i) support to member states with investments and reforms; (ii) kick-starting the EU economy by incentivising private investments; (iii) addressing the lessons of the crisis. The 750 bln EUR made available to member states is designed to build a green, digital and resilient EU. Combating the climate crisis and its impact, as well as protecting biodiversity, is designed to account for a significant share of this package.

Poland is set to become one of the package's biggest beneficiaries: it may receive up to 23.1 mld EUR in grants and up to 34.2 bln EUR in loans, a total of 57.3 bln EUR. The amount is all the more staggering given the current fiscal situation of the state: overall, it is estimated that, counting some other minor instruments, Poland can hope to receive between 230 and 260 bln PLN - a whopping 65% of the state's budget income in 2020! – solely for energy transition purposes. Such a massive aid package presents enormous opportunities, especially since it targets areas of economy in which Poland is especially lacking and where there is plenty of room for progress and lasting positive change.

Climate, air and waste: key challenges and key opportunities

As far as environmental and energy transition is concerned, Poland has been failing for a long time. Climate-detrimental energy generation, a heating sector dependent on polluting coal, massive problems with waste management and a non-existent environmental protection system are but a few areas where immediate action is necessary. For years the Polish energy mix has been shaped mainly by the desire to protect entrenched interests, state-owned energy giants and the privileges of mining pressure groups and urgently needs to change. While, for the first time in history, renewables overtook fossil fuels in electricity generation in the EU in 2020[189], Poland failed to meet its fairly modest target of 15% clean energy.

The situation is equally bad with regard to a problem which is quickly becoming a Polish peculiarity in the EU - disastrous air quality. As the last member state in which coal-fired stoves are still widely used for heating, Poland suffers temperature drops when its toxic air becomes so dense with particulate matter that many cities compete with Asian metropolises for the most-polluted-city-on-the-globe top rank. The situation has not improved significantly, despite infringement proceedings and lost EU Court of Justice cases - air quality norms are enshrined in EU law, after all.

Furthermore, while the circular economy is gaining traction in many countries, Poland is still struggling with the basics when it comes to waste management. Its recycling rates are very low and miss their rapidly increasing targets by a large margin.

Although the current political situation in Poland and the Polish government's erratic approach to climate policies is hindering progress, the trends shaping energy and environmental transition will only increa-

[189]Ember and Agora Energiewende, EU Power Sector 2020 Report, January 2021

se. The Next Generation EU package has the potential to drive change. The government and businesses can either use the newly available funds now, and invest and modernize - or pay a massive bill in a few years' time, when energy prices escalate, waste processing fees become untenable and perilous air quality continues to weigh on the public healthcare system.
How to approach these issues - or whether to approach them at all, in less progressive circles - is an entirely different story.

Exploring opportunities

Poland's implementation of the Next Generation EU programme will be set out in its National Recovery and Resilience Plan. The plan is due to be delivered by 30th April 2021, when the deadline set out by the European Commission expires. Although this date is fast approaching, there are three alarming signs that its contents will be anything but optimal. The Plan is being prepared with little to no stakeholder engagement (and environmental NGOs and organizations in particular), seems to ignore the need for regional cooperation on the local government level and does not seem to have had the required knock-on effect on other strategies which directly interact with its goals and mechanisms. These shortcomings are, nevertheless, areas for improvement which could generate immediate benefits.

a) Area 1: more transparency - no stakeholder engagement means no recovery

What is most striking about the current strategy of the Polish government with regard to the National Recovery and Resilience Plan is that its contents are shrouded in secrecy. Despite the plan being due on 30th April 2021, the open consultation process has not yet begun, as of 15th February 2021.

On 9th February a large group of more than 20 non-governmental and business organizations filed an open letter to the Polish prime minister criticising the fact that the National Recovery and Resilience Plan is being hidden from the public. Since Net Generation EU is not a regular set of EU funds similar like those Poland has received in the past and is designed to achieve a rather well-defined set of objectives, multiple entities involved in particular in energy transformation have voiced their concern over insufficient transparency and called for closer cooperation.

Such statements are entirely understandable. As time is running out, it leaves expert stakeholders with little opportunity to contribute to the Plan - and even less for the government to review their input. Given the Polish government's extremely bad record on stakeholder engagement, many see this as a way of ensuring that the Plan reflects only its position alone. The biggest risk in this case is that the Plan submitted to the Commission will be vastly inadequate and set Poland up for failure.

How the government wishes the National Recovery and Resilience Plan to bear fruit with little to no feedback from the stakeholders who are supposed to be its main beneficiaries remains a riddle.

<u>b) Area 2: less silo mentality - more alignment with the overall purpose of the plan</u>

As well as being mismanaged and needing urgent improvement in its consultation process, the government needs to adapt its priorities and other strategic documents to better accommodate the changes heralded by Next Generation EU. What is particularly worrisome is that the project submitted for the National Recovery and Resilience Plan and the key document, Energy Strategy of Poland 2040, being prepared at the same time as the Plan hardly seems coherent with the underling purpose of Next Generation EU.

The very same organizations which are denouncing the government for hindering the consultation process, have pointed out that certain of the items which may make it into the draft Plan are largely inadmissible, since they infringe the 'do no significant harm rule'. Some regions and ministries have published proposals for the Plan including roads and motorways (often across environmentally valuable areas) or waste incineration plants, which are most likely not going to be accepted. At the same time, little information is available on projects that will realistically contribute to climate action and meeting the thresholds required by Next Generation EU.

A particularly dire example of lack of cooperation and ambition is the Energy Strategy of Poland 2040 - a key document prepared by the government to set a framework for national energy transition. It is difficult to elaborate on the document in detail, since at the time of writing this article the full version of the document has not yet been disclosed (sic!) despite having been approved by the government. However, the picture emerging from the published summary is a rather gloomy one: the goals outlined in it are anything but ambitious. According to the plan, the share of renewable energy in the mix is planned to increase to 23% by 2023, while coal is planned to drop to no more than 56%[190]. The government is planning to build a nuclear power plant and start generating nuclear energy by 2033 and eliminate coal-fuelled heating stoves from households by... 2040. In 2030, GHGs emissions are targeted to drop 30% on 1990 levels. Presenting such lacklustre plan and one which sets no Polish economic climate neutrality whatsoever, is bordering on the absurd in the light of gravity of the climate crisis. Funnily enough, the Recovery and Resilience Facility is cited as one possible funding source for the Strategy, which means that the government took it into account. It would, however, seem that whilst significant funds are going to be made available, the key strategic document designed to guide energy transition remains heavily focused on postponing change and protecting the entrenched interests of the coal industry, which is obviously at odds with Next Generation EU goals.

[190]Ministry of Climate and Environment the Republic of Poland, Extract - Energy Policy of Poland 2040, February 2021

A persistent lack of alignment between national policies and Next Generation EU, as well as poor leadership, are jeopardizing other aspects of transition too. The energy generation field is particularly important, but such a flawed approach may affect the transition to a climate-neutral transport system, building circular economy or investing in water retention and drought prevention - a particularly important issue for a country like Poland, where water resources are scarce. The narrow perspectives of specific ministries and their silo thinking are an obstacle to convergence and may ultimately derail the environmental effectiveness of the National Recovery and Resilience Plan, leaving Poland even further behind member states investing in clean energy, a healthy environment and the resilience of their natural ecosystems.

<u>c) More regional cooperation - potential real-life success stories are everywhere</u>

It is very likely that groundbreaking results could be achieved if more focus was put on regional, cross-border and cross-regional cooperation. An excellent example where this trend converges with environmental and economic challenges is the Black Triangle - the tri-border region where Polish, German and Czech borders meet.

Poland, Germany and the Czech Republic, all heavily dependent on coal in their electricity generation sectors, are facing the challenge of energy - and more ge-

nerally environmental - transition. A heavily polluted industrial hub and a still important energy generation center, the area Germans, Czechs and Poles share, could seize the opportunities created by climate policies - and Next Generation EU in particular.
The decarbonization of the economy and the energy sector in particular is the most pressing, and probably the greatest development challenge, Poland will have to face for the next 20 or 30 years. Increasingly ambitious EU level commitments are putting a great deal of pressure on member states to deliver tangible results. While Germany is consequently following its Energiewende strategy and Czech climate and energy policies are increasingly aligning with wider EU trends, Poland is lagging behind, as we have seen, and failing to produce a coherent national energy transition strategy - let alone a strategy with ambitious climate goals. The above-mentioned international and national factors are having a direct impact at the regional and local levels, especially in the tri-border area. Although decades of successful cross-border cooperation (for example, within the Euroregion Niesse-Nisa-Nysa framework) have laid strong foundations for joint projects, further enhanced by Poland and the Czech Republic joining the EU in 2004, energy transition alone is an entirely new and complex task. It is likely that its goals will be untenable without effective support from EU funds.

The tri-border region, labeled the Black Triangle in the past due to extremely high levels of pollution generated by heavy industry in all three countries, has been recovering since the fall of communism in 1989. Although enormous progress made in the field of industrial technologies and the development of new branches of the economy (e.g. tourism) has alleviated the damage to a certain extent, certain major challenges still need to be overcome.

On the Polish side of the border the energy transition debate is dominated by the Turów lignite mine and the power plant it feeds. The mine and the power plant directly employ around 4000 people. Tax proceeds generated by its activities make Bogatynia, the town the mine is located in, one of the wealthiest in the entire country. The plant provides electricity to two million households - and will supply a further 1 million upon completion of its expansion (which is likely to happen in 2020).

Unfortunately, the sheer scale of its operations impacts the region as a whole and environmental consequences know no borders. The eerie, desolate landscape left by strip-mining, massive land degradation and a bad reputation for environmental damage and pollution are hampering the development of other branches of the economy, such as tourism or environmentally friendly agriculture. Open-pit mining disrupts local water sources and endangers the livelihoods of thousands of people in Poland, Germany and the Czech Republic meaning that controversies and conflicts are inevitable.

To date, the discussion regarding the Turów mine remains heated and confrontational. PGE, the state-owned company which operates the facility, has recently extended the mining license and this will remain valid until 2026. However, the official plan of the PGE is to keep the mine and the power plant open until 2044 - a date which seems inconceivable. On one hand, keeping high-emission lignite-fueled power plants operational for so long is at odds with achieving climate neutrality by 2050. On the other, the rising cost of coal-generated power will most likely make the electricity produced by the plant prohibitively expensive by then. Unfortunately, the state-owned energy giant backed-up by the government which is determined to slow Polish energy transition down as much as possible refuses to accept this.

In the meantime, the regional debate regarding the future of the plant is becoming increasingly heated. In June 2020, the Czech Committee on Environmental Protection recommended a lawsuit against Poland for irregularities related to Turów mine operations. In July 2020, the Committee on Petitions (PETI), a permanent European Parliament body, held a hearing regarding a petition signed by more than 13,000 people who spoke against extending the mining license. In August 2020, large-scale demonstrations by Polish, Czech and German activists against expanding the mine took place. Discussions, protests and conflicts around the mine's extension and the operations of the power plant will certainly continue, since trade unions and many local inhabitants are strongly in favor of keeping both open:

in the absence of a viable transition plan on the part of the Polish government their livelihoods depend entirely on producing energy from lignite.

Regardless of the reluctance of the Polish government to admit it openly, coal's demise in the European and Polish energy mix is inevitable. It is highly unlikely the Turów power plant and mine will remain operational until 2044. Now heavily dependent on proceeds from mining, the area will need to undergo a process of transition if it to avoid economic collapse. Stronger cross-border cooperation may be the key to success. Often perceived as European integration testing grounds, cross-border territories can play a key role in energy transition and have already taken advantage of the opportunities for development offered. The Czech-German-Polish tri-border area is no exception.

Local authorities should undoubtedly reach out to other post-coal, cross-border regions in Europe in which successful transition has occurred and learn from their experiences. The time to prepare transition plans is now: drawing these up at the last minute is not feasible, since it takes years, even decades, to deploy adequate policies. Taking advantage of local experts and academics from all three countries would enable the economic impact of the transition to be assessed, opportunities to be better identified and the region's sudden decline to be averted - especially if the Turów power plant and mine was shut down abruptly. Few places in Europe have more to gain from putting the funds from the Just Transition Fund to good use.

Cross-border cooperation in applying could potentially reshape the local economy, create new jobs and bring the dirty, lignite chapter in the region's history to an end.

Systemic deficiencies in its energy sector have meant significantly increases in Poland's energy imports from Germany and the Czech Republic, a trend that is likely to continue in the future. The region is witnessing an increase in its renewable energy capacity (still dwarfed by the enormous Turów coal power plant, but gaining momentum). The local and regional authorities would benefit if they lobbied together for stronger grid integration, making their voice much louder to higher-level decision makers. Using cross-border smart grids could facilitate the provision of safe, cheap energy to the entire region and lead to effective allocation of financial resources that would be otherwise be spent on oversized or less efficient investments. Yet again, EU funds will be crucial and in this case - play into the general strategy of more closely integrating local energy markets and national grids to facilitate the balancing of the system. Local governments and entities are also fully capable of formulating cross-border, joint carbon-free strategies and investing in renewable energy generation. A decentralized energy generation system based on wind and solar power encourages thinking revolving around close bonds, neighborhoods and natural connections undivided by national borders. What matters is the local efficiency of the system and exchanges within it. Creating a framework which takes the entire region into account may bolster investment in cheaper, more viable energy projects that would not be possible without available resources being mapped in this way.

Conclusions

It is no exaggeration to say that few countries in the world with structural challenges as severe as Poland's have been offered such great opportunities to solve them. However, to date, even fewer have managed to squander them, as Poland did after joining the EU. There is no more time for procrastination. Transformation must no longer be put off. Energy and environmental transition is an urgent need - not a luxury or a policy option.

We cannot eat our cake and have it, too. The Next Generation EU and the National Recovery and Resilience Plan are much more than simply a list of projects to carry out - their aim should be a complex reform of systems and institutions. Without it, achieving resilience and sustainability across economies and ecosystems is impossible.

Net Generation EU funding may be the last aid package of this scale and accessibility available to the Polish economy and its potential benefits are enormous. Misuse or misapplication of the funds from the Covid-19 recovery package may severely hamper Poland's capacity to finally escape the middle-income trap and build an advanced, clean and knowledge-based economy with stable foundations. We can only hope that our notoriously incompetent right-wing government rises to the challenge - at least this time - and provides a comprehensive framework for all stakeholders to take advantage of the unique opportunity being offered us.

CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

"The necessity to unify Europe is evident. The existing states are powder without substance [...] Only the union may make them last. The problemi is not either independence or union; it is either be unified or disappear [...]"

(Luigi Einaudi, Lo scrittorio del Presidente (1948-1955), Einaudi, Torino, 1956, p. 89, my translation)

The Europe we have in front of us is a reality, stronger than ever. The Next Generation EU program is born after the Covid-19 as a temporary initiative of the EU Commission to finance the European countries' economic recovery through a mix of loans and grants. The substantial amount of resources (€750 billion) requires that the EU will issue bonds to fund these transfers and design some common sources of taxation to repay its debt.

NGEU takes into account the asymmetric shock of the pandemic (Italy is the major net beneficiary followed by Spain, Poland and France) and creates new "departure conditions" for the European countries to invest, according to their specific needs, in digitalisation, innovation, competitiveness and culture; green revolution and environmental transition; infrastructure for sustainable mobility; education and research; inclusion and cohesion; health. The strategy that drives the projects is transversal and synergistic and is expected to have an impact in several sectors. The interdependence among countries and the simultaneity of the recovery is fundamental for the strengthening of the EU model.

The spirit of NGEU is definitively in line with the original European project based on two pillars: economic competition in the single market and solidarity. The EU budget itself has both an allocative and redistributive function aimed at strengthening an integrated European market and stimulating less developed regions, especially in Southern and Eastern countries.

The relevance of the territories within the EU clearly emerges from the growing importance in the last decades of the policy of cohesion not only in terms of resources but also in terms of recognisability of the EU action. This policy has always been the major investments' channel through which the EU has supported the economic growth of regions and cities, job creation, firms' competitivity, sustainable development in order to reduce regional disparities in terms of employment, productivity and growth.

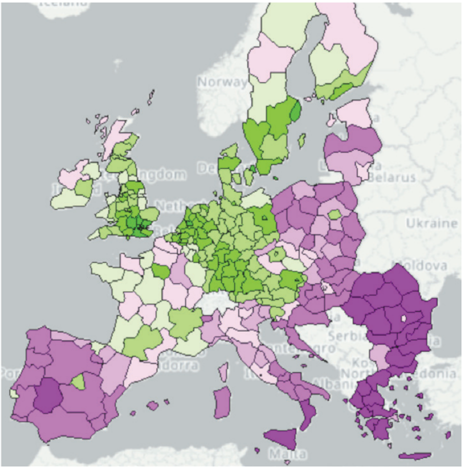
Regional distances across and within countries in the EU indeed are not an anomaly and supposedly, as a result of the pandemic, they are going to worsen. Therefore, solidariety between North and South, West and East is certainly not a new issue, to the point that in addition to the resources of the EU multiannual financial framework 2021-27, it is established a specific fund ReactEU (Recovery Assistance for Cohesion and the Territories of Europe, €47,5 billion) aimed at supporting the recovery of territories, regions and cities (employment, especially of young and women, investments to the small and medium firms in all the sectors, included tourism and culture) to make their economic growth more homogeneous.

Notwithstanding the financial effort and the European facilities increasingly devoted to territorial cohesion, the regional disparities in Europe, reduced between 2000 and 2008, have recently grown again. Ten years after the crisis the North-West, South-East divide across the EU is still clear and visible, as shown by two different indicators, the Regional Competitiveness Index (RCI) built by the European Commission and the Quality of Government Index (QOG), built by the European Commission and the University of Goteborg.

The RCI measures the major institutional, economic and social factors of competitiveness over the past ten years for all the NUTS-2 level regions across the European Union, defined as "the ability of a region to offer an attractive and sustainable environment for firms and residents to live and work"[1].

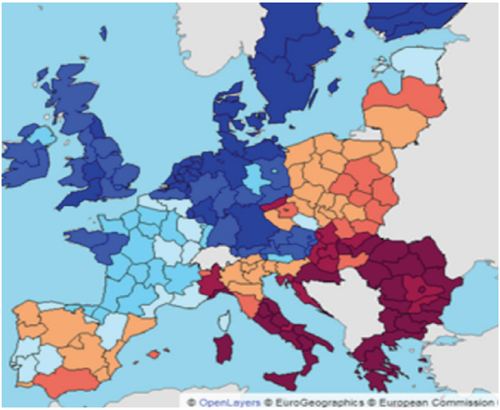
The 2019 index (see the map below) show wide-ranging variations across and within countries: the Northern areas appear more performing (coloured in green) than the Southern (coloured in violet), especially because of the negative weight of Southern Italy and Greek, Portuguese and Spanish regions. A polycentric pattern characterized by with a strong performance of most capitals and regions with large cities that benefit from agglomeration economies, better connectivity and high levels of human capital, with the exception of the Netherlands, Italy and Germany. In France, Portugal and most of the Eastern and Nordic countries the regions neighbouring the capital are far less competitive. The spillover effects from centre and periphery are mostly occurring in the Northern and Western regions, less in the Southern and Eastern. Moreover, the

[1]The indicators are grouped into 11 dimensions of competitiveness capturing aspects that are relevant to productivity and long-term development and are groped into three sub-indexes: basic (institutions, macroeconomic stability, infrastructure, health, basic education); efficiency (higher education and life long learning, labour market efficiency, market size) and innovation (technological readiness, business sophistication, innovation)



regional competitiveness index is correlated significantly and negatively with inequality in income distribution.

There is also evidence that the quality of institutions in Europe is heterogeneous across and within countries (Charron, Dijkstra, Lapuente, 2014; Charron, Lapuente Annoni, 2017). The economic literature has widely recognized the impact of the institutions, together with physical capital, human capital and innovation, on the economic growth in countries and regions (see, among others, Rodrik, Subramanian, and Trebbi 2004). Some studies based on cross-section EU regional data have recently established that regional quality of government appears to be one of the most robust drivers of resilience (see, among others, Rios and Gianmoena, 2020). The QOG indicators (2017 – see the map below) measure the degree of impartiality, lack of corruption and quality of public services. The Northern regions, in France and Germany and in the Scandinavian countries, for example (coloured in light and dark blue), are the best in terms of quality of institutions while some Southern regions in Greece, Italy and Spain and some Eastern regions show low quality (coloured in light and dark red).



Money is not everything. Public administration inefficiency is indeed one of the major factors that have limited the effectiveness of the cohesion policies across Europe. In areas where both social capital and quality of institutions are low, the availability of substantial resources generate rents and corruption rather than innovation and opportunities (Accetturro and De Blasio 2019).

In the last twenty years a wide literature on the impact of the cohesion policies in terms of convergence and economic growth in several countries has developed. Overall, the impact has resulted positive but modest, especially if compared with the huge amount of resources employed[2]. A limited absorption capacity of the public administration and/or a low level of human capital in some regions where the intensity of the treatment was high may explain this evidence.

Today policy makers and public administrations should take into consideration their empirical results provided by these studies to avoid the mistakes of the past. NGEU provides the resources to finance not only public but also private investments and its temporary feature requires responsibility of both national and local governments and entrepreneurship, removing the risk of a continuous flow of assistance, that is the fear of the “frugal four” (Netherlands, Denmark, Sweden and Austria). The EU does not have to be interpreted as a fund provider but as an integrated economy where the North-West and the South-East have to develop and strengthen their proposals of specialization and attractiveness in the spirit of a fair and healthy competition.

Emma Galli

[2]See on this point the meta-analysis of Dall'Erba e Fang 2017.

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Next Generation EU is an instrument proposed by the European Commission to create a sustainable, inclusive and fair recovery for Member States, in order to face the challenges deriving from the Covid-19 pandemic.

In this context, *"Next Generation EU: A Southern-Northern Dialogue"* is a comparative study aimed at ensuring a dialogue between the two "Southern-Northern" European macro-regions, here represented by Italy, the Netherlands, Poland, Portugal and Spain, for an inclusive, resilient and dynamic reprise of the EU. Overall, the volume intends to offer a liberal perspective on the national policies pursued within the NGEU framework and grounded on the respect of the rule of law and of a sustainable development.

Some remarks on the status quo of the Southern-Northern dialogue and policy recommendations will conclude.