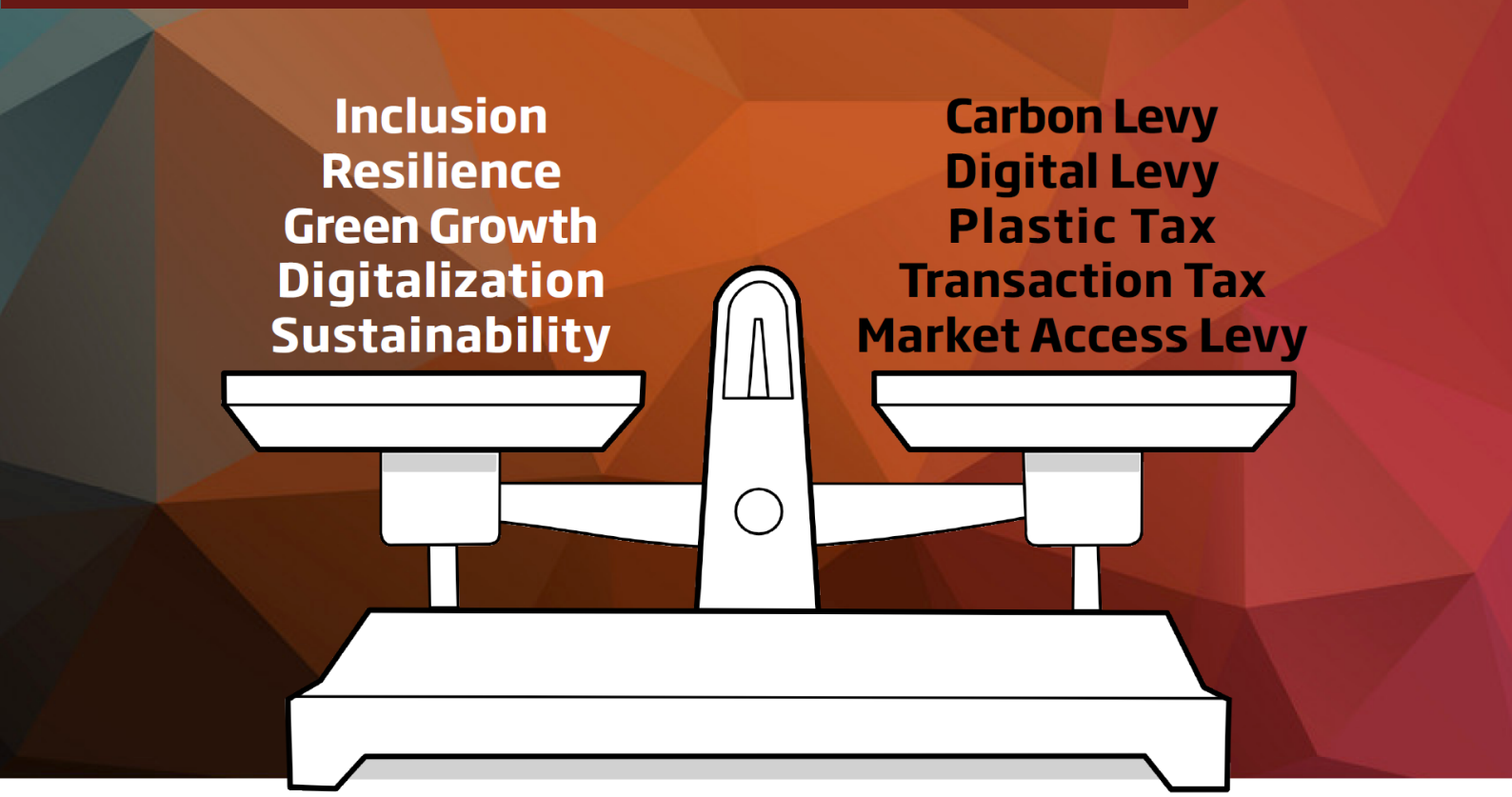
NEXT GENERATION EU:

Why we should be concerned about the Recovery Plan



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The EU has responded to the current crisis with a complex set of packages and programmes: new, old, prolonged, or extended ones where ones form subsets of others and most voters and politicians completely fail to follow them. However, everybody got the key bit of information: Billions are coming from the EU.

While even in "golden" economic times Member States struggled to carry out reforms and investments, suddenly, in the midst of a crisis, there is enough resources to finance even extensive ones.

This plenitude of resources is a mere illusion. Next Generation EU (NGEU) does not only bring billions, it also imposes a burden on entire generations of citizens, tax payers, and entrepreneurs. The following lines contain several categories of problems brought about by the NGEU.

What is NGEU

Next Generation EU is the title of a set of measures in the total amount of €750 billion. Based on an agreement from summer 2020, it´s applicable to the period between 2021 and 2027 and it goes beyond the standard EU budget (€1,074 billion for seven years). Its existence is officially justified by the pandemic. NGEU includes the extension of existing programmes (such as Horizon, or Invest EU) and newly-created ones. New programmes constitute the vast majority of the planned NGEU expenses. The most extensive of these programmes attracts the biggest attention: Recovery and Resilience Facility (RRF), which accounts for 90 % of NGEU (€672 billion). It consists of grants worth €390 billion and soft loans worth €360 billion available for EU Member States. Accessing RRF resources is conditioned by projects (recovery plans) that shall be presented by individual Member States. Recovery plans must fulfil several criteria.

Apart from NGEU, there are other EU instruments that are often mentioned in connection with the pandemic. The SURE instrument can provide financial assistance of up to €100 billion in the form of soft loans for the preservation of employment (so far, it has been used by 18 Member States); the European Investment Bank wants to spend €200 billion and the European Central Bank has announced measures worth €1,850 billion. But we will not focus on them in this text.

The extraordinary expenditures of NGEU require further financing. EU revenues are currently set as 1.2 % of the European Gross National Income. Now they are supposed to be increased to 1.2 % and temporarily to 2 %. Temporarily means at least by 2058 though. The source of this additional revenue is supposed to be a set of new taxes that are to be gradually launched in the EU.

Why we aren´t happy about NGEU

We consider NGEU to be a gigantic waste at the best and in a slightly worse scenario, it can represent a historical momentum which will set the EU on the definite course to become a feeble Colossus standing on jittery legs, where the growth of living standards will lag behind other parts of the world and whose economic problems will continue to deepen. Our belief is backed up by an entire series of worries and problems connected with NGEU.

1. Sudden EU centralization

A more intense federalization of the EU ("The United States of Europe") and the transfer of national competences into the hands of the European Commission have been the subjects of discussions for decades. But so far, steps were taken rather slowly and big topics such as European taxes, the extension of the European budget, and EU bonds have remained almost static. Brexit has shifted the balance towards centralists headed by France. It seemed that no big changes were about to take place – for instance, discussions about extending the EU budget (by a relatively small amount in comparison with NGEU) as a reaction to losing British contributions were running in circles.

In a matter of a couple of weeks, most of these issues (many of which are supported by fundamental EU treaties) stopped being tabu – **the EU is preparing its own taxes, and it is going to condition debts as well as Member States´ access to its finances by having control over their economic policy through establishing economic priorities and objectives for them to accomplish**. This shift was initiated by a small group of politicians motivated mostly by own their incompetence to launch reforms in their respective states in order to stop economic chaos or stabilize public finances.

The establishment of a debt union will further complicate the relations within. What´s going to happen if, for instance, Italy decides to leave the EU in 10 years' time? Is it going to take along its share of the European market? Or will it leave it behind and the debt will be distributed among the remaining parties?

2. Permanent temporariness

NGEU is presented as a temporary program. However, this temporariness is only an illusion. Paying off NGEU is supposed to last until 2058, but in 37 years' time, politicians who remember what the world was like before will no longer be alive. Can you imagine a politician give up 40% of resources from their budget? Are we supposed to expect that the programme of financing the capital expenditure of Member States will actually come to an end in 2027? Are we supposed to believe that this enormous infrastructure of projects, programmes, and tens of thousands of officials, consultants, and managers in charge of them will suddenly disappear or change careers? The European Central Bank has called on the EU to make RRF permanent.

NGEU is like opening a Pandora´s box. Extending the EU budget, implementing new taxes, and increasing the EU´s debt will become the primary answer to any future crisis. And more crises are sure to come by 2058. Europeans will thus find themselves in a situation when apart from paying off NGEU, they will also have to pay off nextNGEU or next-nextNGEU.

3. Pandemic as a pretend justification

Despite the fact that NGEU is presented as a reaction to the pandemic of Covid-19 and that this justification was also accepted by the media, the real connection between NGEU and Covid-19 is merely marginal. NGEU comes more than a year after the beginning of the pandemic and has only a minimum connection with its health and economic impacts. The main economic problems of the pandemic are the loss of operating revenues and lack of resources to pay wages, benefits, utilities, or rent. However, NGEU pretends that the actual problem is the lack of investment capital and it is explicitly forbidden to finance operating expenditures from NGEU.

Its main beneficiaries are states that have suffered from chronic economic problems for at least a decade and the rescue of which has already been attempted by other instruments, e.g. the European Stability Mechanism. European economy has been slowing down since 2019 and the EU would have most likely attempted to increase the financial stimuli of the economy even without the pandemic – the remaining question is to what extent. **NGEU is more of a continuation of the European Stability Mechanism, a mere extension of the reaction to the 2010 crisis. It isn´t a reaction to the impacts of the pandemic but to the incapability of politicians to carry out reforms on the national level.**

4. One size doesn´t fit all

37 % of NGEU resources has to be used for green projects and 21 % for digital projects. If you are curious how these numbers came about, you should know that the EU approaches all its expenditures equally. These objectives were adopted without any discussion.

It seems that it´s automatically supposed that these projects will have positive impact on the economies of individual countries while fundamental differences between those countries are ignored. NGEU puts the same pressure to carry out green projects on high-emission countries like the Czech Republic, Ireland, the Netherlands as on low-emission Sweden, Rumania, or Croatia. This forces countries to invest money into areas which are not of high priority for them. NGEU is more of a fund that facilitates green and digital projects rather than reforms as such.

If you expect that NGEU is going to be the spark that ignites the powerful flame of green growth, you are in for a disappointment. To a significant extent, it is a follow-up to the existing structural and cohesion funds of the EU; the focus remains the same and only the technical aspect of their absorption is slightly different.

5. Unrealistic amounts of money for efficient absorption

Several Member States struggled to absorb the existing amounts of EU funds. Some countries have not even absorbed 50 % of the available resources for the 2014-2020 period. Also, a big portion of what had been absorbed was wasted or used in corruption.

Investment, and more importantly – smart investment – is a complicated art scarcely mastered by officials. Because Member States´ low absorption of funds points to the flaws of the EU itself, there is a tendency to systematically turn a blind eye to the question of efficiency of the used resources. The objective is to absorb resources while fulfilling the formal conditions of absorption. You may find hundreds of anecdotal examples of bizarre projects carried out across Member States. Even projects that seem to make sense rarely prove to be viable and end soon after the end of the project period.

NGEU is going to make institutions that failed to absorb the existing resources absorb multiple times more. So, we are sure to see yet another decrease in the efficiency of using billions of euros coming from tax-payers. However, it will be interesting to see how countries approach the possibility to take a loan (remember that grants only account for €390 billion of the NGEU and soft loans represent €360 billion?). This will have an impact on the actual size of NGEU and show to what extent states really needed capital and to what extent they only wanted to get hold of "free money".

6. Growing bureaucratic apparatus

NGEU is going to require tens of thousands of new officials on both European and national levels whose task will be to assess and monitor plans, projects, and their implementation; bill resources; create reports; carry out audits; or deal with court disputes. The resulting bureaucracy doesn´t only represent a burden for the EU and its Member States, but also for private entities involved in the projects. We´ll also see a multiplication of consultants and consultancy firms that will assist disconcerted institutions as they hectically try to fulfil the formal requirements of projects. Thousands of young European talents who could be establishing start-ups and offer real value to consumers in the form of products and services are going to dedicate their time to unproductive yet well-paid work. **Many entrepreneurs will shift from satisfying customers to satisfying officials and their requests, because European resources will become a more important source of their revenue than their customers.**

7. EU becomes more isolated from global markets

A large proportion of the intended new taxes (carbon, digital, transaction, market access fee, etc.) can potentially isolate EU from global markets. Multinational companies will begin to view the EU customer as second-class customer. We already start seeing this today, for instance, in the case of several global portals who simply cut-off European customers from their services in relation to GDPR regulations. The EU is not the centre of the universe – its inhabitants only represent 6 % of the Earth´s population. The EU economy may represent 23 % of the world GDP, but both these shares are going to keep decreasing.

8. Increased central planning

The role of central planning will become more important through the approval of reform plans in Member States 'economies. The use of capital will be decided by officials rather than customers. Although the European Commission is trying to build an aura of professionalism and even scientific expertise around the reform plans, they are nothing but a cocktail made of political beliefs, ideologies and activities of lobbyists. As a result, we have a set of buzz words about green growth, equality, digitalization, education, or health that was concocted in a couple of months. **NGEU thus *de facto* represents the shift of capital expenditure planning of individual Member States into the hands of European bureaucracy. The Commission is going to aptly reinforce the position of the EU in the absence of an open and democratically approved strategy and the public will reward it with its uninformed applause.**

Just like when in the Socialist Block planning was consumed by chaos due to the inconsistency of steps taken by the centre and by individual subjects, similar fate awaits NGEU. We can already see it today – Member States are quickly creating "reform" plans to satisfy NGEU, but how many of these plans have the support of local mid and long-term budget frameworks and are backed-up by existing strategies? Many recovery plans are just floating in the air. They are the result of local politicians seizing the opportunity.

9. Lack of motivation for true reforms

NGEU primarily works with reform areas where the benefits for tackling specific economic problems of individual states are very unclear. More electric cars or green roofs aren´t going to solve issues connected with pension systems, healthcare, or the judiciary. Real reforms generally only take place when the governing politicians are cornered and have no other way out. The hundreds of billions NGEO has to offer are again going to buy politicians extra time so that they can maintain the impression of a sustainable pay-as-you-go welfare state in front of voters.

Reforms rarely require significant financial resources. You can reform the judiciary, healthcare, or education sectors with a couple of millions in your pocket because the problems we face here are mostly related to procedures, competences, and regulations. Such changes are painful and politically costly. NGEU is going to enable politicians to present building new schools, hospitals, or charging stations as reforms and at the same time avoid the costs of profound changes.

The mismatch between NGEU requirements for the contents of individual reform plans and real problems countries face represents a fundamental problem. Only reforms that can be implemented fast will actually make it into the recovery plan because their political cost isn´t high and most of the details concerning their absorption are already prepared. Under such circumstances, there will understandably be a pressure to carry out investments that would take place even without NGEU. It therefore doesn´t make sense to expect these investments to accelerate economic growth.

10. The adverse effects of new taxes

The costs of NGEU are supposed to be paid for to a large extent with the revenue generated by at least seven new taxes and tax-related measures. Let us remind you that while NGEO is scheduled for the next 7 years, it will be gradually paid off from new taxes until 2058. If NGEU becomes a permanent instrument, further (multiple times higher) taxes will be required for its permanent financing.

Each tax represents a transfer of resources – and therefore also of economic decision-making about these resources – from the pockets of producers and consumers to politically-controlled treasuries. Although European politicians claim that more than one new tax will be paid by a "third party" (they usually mean multinational companies operating outside the EU), such claim ignores economic knowledge. Economic knowledge tells us that it will be the less flexible party (meaning less willing to change behaviour in a reaction to a change in price) who will bear the costs. In many cases it will be the European consumer who will be less flexible.

Taxes in preparation:

Estimated implementation by June 2021:

A. Plastic tax: €0,8 for a kilogram of non-recyclable plastic. Estimated costs for companies and consumers: €6-8 billion per year.

Result: increased prices of products made of these plastics (packaging; diapers; glass fibre; basically, all plastic materials firmly connected to another material used, for example, in cars, kitchen appliances; and chemically polluted plastics).

B. Carbon Levy: (Carbon Border Adjustment Mechanism): The flagship of new taxes (actually it is more of a duty than a tax) about which we still know only the strict minimum. It´s supposed to tax some types of foreign products that have a higher emission footprint than the same products made in the EU. The rules of the World Trade Organization make such duty theoretically possible, but it would have to be imposed only on a very limited number of products for which it is easy to calculate their carbon footprint. The result will be a group of disadvantaged products. Given that not even European steel producers have all equal emissions, the duty will have to be calibrated in a complex manner with the help of artificial benchmarks. Estimated costs: approx. €5-14 billion per year.

Results: more expensive products for consumers; creation of several emission "castes" of products; threat of reciprocal measures from third countries; importers change their behaviour (they shift their focus on more complex products).

C. Digital Levy: Currently unilaterally implemented or being implemented in various forms in some EU Member States; the European proposal should unify its collection and send the proceeds to the EU budget. It is a turnover tax (not profit tax) of digital companies of a certain size. Estimated cost: approx. €5 billion per year.

Results: complicated rules (the tax aims to determine the geographical emergence of value in digital space); low enforcement rate (mainly in case of Chinese and other non-cooperating companies); digital investors losing interest in the EU; demotivating start-ups from developing in the EU; higher prices; cutting European customers off some digital services; the threat of reciprocal action mainly from the part of the USA (in 2020 they announced 100 % custom duty on several French products as a response to the new French digital tax), and many other adverse effects.

D. Emission Trading System (ETS) revenues: Extended to shipping and aviation for routes outside the EU and the transfer of earnings from Member States to the EU. Emission allowances are already applied to flights within the EU, but the new rules would oblige companies to purchase them also for some intercontinental flights and shipping. Yearly cost would probably be hundreds of millions depending on the price of emission allowances (currently they are reaching their all-time maximum).

Results: Increased price of long-distance flights and shipping; environmental damage as a result of more "detours" aimed at minimizing the route within the EU.

Estimated implementation by June 2024:

E. European Financial Transaction Tax: Currently adopted in various forms by some Member States. The tax rate applies to each financial market transaction. The yearly cost is unclear; depending on the rate and scope of included assets it can be from several billions to hundreds of billions, the most likely scenario is tens of thousands of billions per year.

Results: Investment activities in the EU become more expensive; the benefits and motivation of Europeans to save money in non-monetary form decrease; drop in revenue from the investments made by pension and other funds (FTT is sometimes referred to as pension tax); global investors and markets lose interest in trading in the EU.

F. Financial contribution linked to the corporate sector: Sometimes also referred to as "market access barrier". Currently a very unclear tax concept similar to the Digital Levy only it is also applicable to non-digital companies. Costs are unknown.

Results: Same as with Digital Levy: more expensive products, limiting products for EU customers, reciprocal measures.

G. Common Corporate Tax Base (CCTB): Its implementation is the first step to implement the Common Consolidated Corporate Tax Base (CCCTB). Every country has currently its own set of rules (based to a large extent on international accounting standards) of taxation (what revenues and expenditures should be included). CCTB would unify these rules.

Results: because this measure classifies as revenue, its obvious consequence are higher effective EU taxes. It represents the first significant step towards the loss of Member States´ tax sovereignty and towards restricting the option of innovative and competitive tax systems.

More could be said about the impact of new taxes, European debt, increased market interventions, and other aspects of NGEU. Our main conclusion is that big issues faced by Member States (social systems unable to face demographic changes; states´ inefficient management of entire sectors; slowing down the reconstruction of declining sectors, etc.) and by the EU itself (wasting resources; inefficient additional schemes; inefficient agricultural policy, etc.) remain unresolved. They are still present and NGEU can only conceal this fact for so long. Plus, none of this will be for free.

About author

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