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Europe's South on the path to recovery?

Italy, Spain and Greece were hit hard by Covid-19. The EU recovery funds, which will soon be released, is a chance to transform their economies

Italy

In no other EU state does the EU recovery programme 'Next Generation EU' have such a high significance as in Italy – in the financial dimension as well as in its status in political and social discourse. Unlike the Spanish, French or German governments, the government in Rome has decided to exhaust the entire financing framework, i.e. not only the subsidies of about €69bn, but also the entire credit volume of another €122bn. In addition, it has added another €30bn from the national budget: this is a gigantic programme for the economic recovery amounting to more than €220bn in the years 2021-2026.

In this context, it is not surprising that Prime Minister Mario Draghi found emphatic tones when he presented the national plan. Nothing less than 'the lives of Italians' are now at stake, he declared, nothing less than 'the fate of the country' and 'its credibility and reputation as a founding state of the European Union and a protagonist of the Western world'.

The very fact that the executive under the former ECB president has been in office since February 2021 is actually just because of 'Next Generation EU': Draghi was only able to form his almost all-party government because the forces supporting him from the left to the right did not want to gamble away the country's chances of accessing EU funds.

For it is clear to all: the recovery plan offers a unique chance for a new start for a country that was not only more severely hit than others by the Covid-19 crisis, but that had already suffered from decades of stagnation.

The plan is divided into six ‘missions’. Almost €50bn are to flow into mission number one ‘digitalisation, innovation, competitiveness and culture’, which includes, among other things, the nationwide expansion of broadband internet, the digital upgrading of public administrations or the promotion of private investments under the keyword Industry 4.0.

Mission two foresees €70bn for ‘the green revolution and the ecological transformation of the country’, from energy-saving building renovation to the energy turnaround, from the fight against landscape erosion to the strengthening of ecological agriculture. Almost €32bn are to flow into mission three, into ‘infrastructures for sustainable mobility’, including the expansion of the high-speed railway network, especially in the previously neglected south of the country, but also in regional lines and ports.

Mission four is education and research: the number of day-care centres is to be significantly increased, schools are to be digitalised, and thousands of new positions for young scientists are to be created. Mission five is to facilitate access to the labour market, especially for women, and mission six reserves €20bn for strengthening public health care.

Structurally, to make the leap into the 21st century, and economically, to pick up speed immediately: These are the hopes that Italy has placed in ‘Next Generation EU’. Thanks to the money, growth should already be around 5 per cent of GDP in 2021 and around 4 per cent in 2022. This would make up for the Covid-19-related slump of minus 9 per cent in 2020.

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Spain

‘It has to be good and it will be good!’, said the Spanish Minister of Economy, Nadia Calvino, at an event entitled ‘The Third Modernisation of the Spanish Economy’ at the end of April. Spain sees the EU recovery plan as a historic opportunity to take a leap into the future.

Together with France and Germany, Spain has lobbied for an EU recovery plan and mediated between the ‘frugal states’ and the advocates of a recovery plan. The result is impressive. For the traditionally EU-enthusiastic Spaniards, the plan called ‘Next Generation EU’ is a milestone on the way to a more integrated EU.

Now Spain – ahead of Italy, France, Germany and Poland – is the

country that benefits most from the EU's economic stimulus package. The European Parliament and the Council agreed on the distribution in December 2020 on the basis of the EU economic forecasts in November. Spain will receive €69.528bn in non-repayable cash transfers in the years 2021-2023. In addition, there will be almost €70bn in loans.

At the beginning of October 2020, the government under Pedro Sánchez (PSOE) was the first EU member to present its plan for reconstruction, transformation and resilience under the title 'Spain succeeds' (*Espana puede*). In the following months, about 70 consultations with the EU took place, in which further details were discussed and objectives were specified.

The Spanish parliament passed the legal framework for the reocvery programme last year (on 30 December). During the spring, the national plan 'A more progressive Spain' (*Espana mas avanzada*) was further elaborated and approved by the cabinet at the end of March. After a further review of the plan, the first disbursements of funds are expected in June.

And Spain is in dire need of the reconstruction programme: its gross domestic product has dropped by about 11 per cent in the wake of the pandemic. The country had already been hit particularly hard by the global financial crisis and had not yet fully recovered.

For Spain, the recovery plan is all about the bottom line. It has set itself the task of transforming the economic model – a project that has been discussed in Spain for a long time – as well as the ecological transformation to combat climate change, the digitalisation of government services, making the economy and society fit for the 21st century, the advancement of women to achieve gender equality and the social cohesion of society. In addition to the four guiding objectives (ecological transformation, digital transition, social/regional cohesion and gender equality), the plan defines 10 policy areas and 30 projects to boost economic growth. The emphasis on social equality and social cohesion as one of the four guiding objectives is a unique feature of the Spanish plan.

A special commission was set up to accompany the modernisation process. In the highly decentralised state structure in Spain, the state governments (*comunidades autónomas*) also play an important role in the implementation of the plan (they will receive more than 50 per cent of the funds). Social dialogue, which the centre-left government has worked hard to reactivate since taking office, is a key concern: The social partners are involved in shaping it in weekly meetings.

Will the big leap succeed? The structural and current dislocations in the Spanish economy, demographic change, social inequalities, youth unemployment, climate change and ponderous bureaucracy pose enormous challenges for the country. The government has done its homework and seems to want to face them with a progressive project for the future. The wise implementation of the programme gives the progressive government the opportunity to regain the trust in public institutions (government, parliament, parties), which has been severely damaged in Spain, and to put the country on the path of socially balanced modernisation.

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Greece

Greece's government of conservative Prime Minister Mitsotakis from the centre-right Nea Dimokratia (ND) stressed that its national recovery plan will add 7 percentage points to GDP by 2026 and create 200,000 jobs. Greece stands to receive up to €30.5bn from the EU's Next Generation EU by 2026, divided into €17.8bn in grants and €12.7bn in loans.

However, even the government conceded that implementing the plan is a major challenge and would require Greece to absorb double its usual annual rate of €5bn in EU funds, and simultaneously increase private investments by 30 per cent. It also warned that Greece should guard against risks inherent in the exercise, including the danger of encountering 'behaviours from the past'.

As an analysis by Macropolis shows, of the €18.2bn that will come to Greece in the form of grants, 6 billion euros will be invested into the Green Transition – one of four pillars of the plan. Within the Private Investments and Economic Transformation pillar, the blueprint foresees €4.8bn in the form of grants. Thirdly within the country's Digital Transition pillar of the plan, the government is ploughing €563 million into digitising the state's archives.

Furthermore the plan has projects including the build-out of 5G mobile networks on highways (€130 million) and the digital interconnection of islands (€89 million). Finally over €5.2bn go to the Employment, Skills and Social Cohesion pillar, including €2.3bn given over to various projects related to digital, vocational and STEM (Science, Technology, Engineering and Mathematics) education and training.

Besides the vaccination-drive being the most important political issue,

implementation of the recovery plan is centre stage within parliamentary debates. However, the discussion is limited to a small fraction of Greek society. It is therefore unsurprising that no impact is visible in the polls: conservative ND remains 15 per cent ahead of leftist opposition SYRIZA.

The country's third political party – centre-Left KINAL – criticised that 'the programme was designed in the PM's office by the few for the few, and will result in a further widening of social inequalities', while questioning the basis for the claims that the EU funds would be accompanied by higher private investment and would generate thousands of jobs.

Syriza, on the other hand, condemned New Democracy's plan because of a the lack of consultation which preceded its submission to the European Commission. Its alternative proposition, dubbed 'Greece+', claims to be more socially inclusive, with a focus on a more even distribution of the benefits of growth across society.

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