

POLICY BRIEF

NextGenerationEU under a Social Equity Lens

1. Introduction

The severity of the COVID-19 pandemic and its far-reaching multi-dimensional repercussions placed an unprecedented pressure on the socio-economic fabric of the EU and its member states. With the overarching aim to assist EU member states with the recovery from the pandemic, the European Commission initiated NextGenerationEU (NGEU) within the 2021-2027 European Multi-annual Financial Framework (MFF).

In the context of COVID-19 recovery, the Commission states that the social dimension is a priority for the EU level response to the pandemic (European Commission 2020a). To this end, scholars argue that NGEU is a symbol of solidarity in the EU (see e.g., Jones 2021).

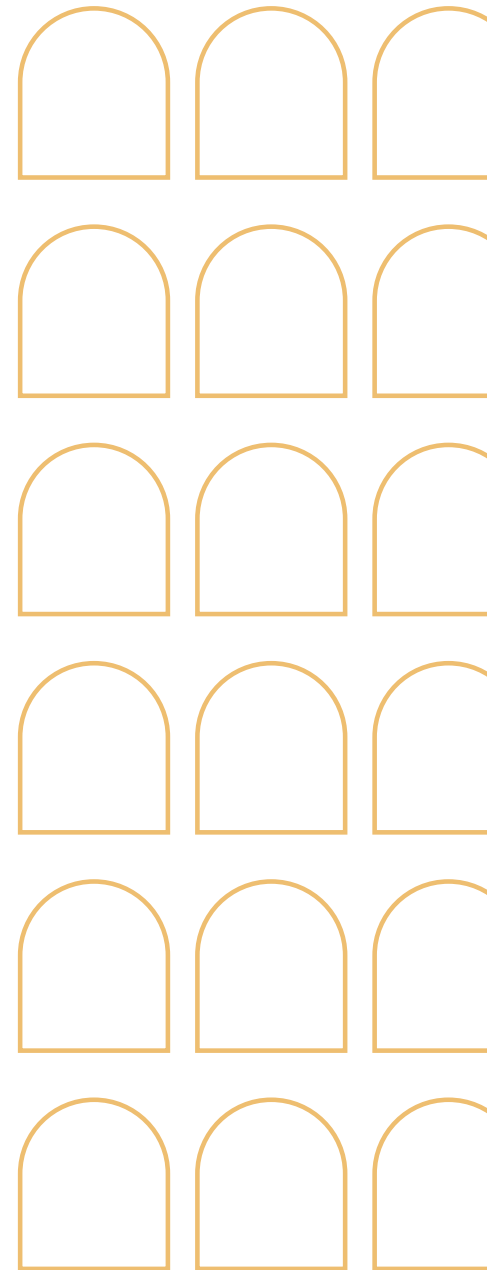
We take this emphasis on the social dimension and solidarity as an overarching starting point for our (inceptive-descriptive) analysis of NGEU under a social equity lens. Particularly, we attempt to trace dimensions of social equity in NGEU, which we understand as both a governance innovation and financial instrument.

We deem the examination of NGEU under a social equity lens important as past EU level responses to crisis (e.g., the sovereign debt crisis) as well as changes in its institutional setup (e.g., introduction of the European Semester) arguably overlooked social concerns in terms of policy preferences and design in favour of their economic-fiscal counterparts.

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2. NextGenerationEU (NGEU): rationale and economic impact

Weighing €750 billion¹, NGEU offers investment opportunities across three pillars. The first pillar supports member states in addressing the COVID-19 crisis. It includes the Recovery and Resilience Facility (RRF) (€560 billion²) accessible through loans and grants; REACT-EU (€50.6 billion) for cohesion support; and general support for the green transition. The second pillar entails economic recovery through private investment and includes a Solvency Support instrument, the InvestEU flagship programme and the Strategic Investment Facility. Finally, crisis prevention and management are focal points of the third pillar of NGEU with its EU4Health programme (€5.75 billion) (European Commission 2020a; 2020b; n.d.).

Arguably, from a governance perspective, NGEU represents a ‘Roosevelt moment’ (rather than a ‘Hamiltonian moment’; see Lionello 2020) for the EU given that it promotes long-term structural reforms and further cultivation of common EU policy goals in addition to being a short-term crisis relief instrument (Beetsma, Codogno, and van den Noord 2020). To this end, NGEU introduces novel governance elements including: a first genuine European debt (the Commission borrowing on financial markets); a temporary transfer mechanism (RRF) that manages the debt; the shaping of a common macroeconomic policy linked to the conditionality attached to the usage of NGEU financial resources (see Section 4); a reinvigoration of the community method of governance; and a decreasing control of national parliaments on fiscal policy (Lionello 2020). Considering NGEU’s magnitude, it is relevant to note that it enjoys high public support (Bremer et al. 2020; Jones 2021). Overall, NGEU can be regarded as a ‘game changer’ (Bisciari et al. 2021) for EU politics and policy-making.

From a policy perspective, there is a strong economic rationale stipulating NGEU. Policy manoeuvres such as relaxation of monetary policy, easing of state aid rules, activation of the escape clause of the Stability and Growth Pact (SGP) – which stimulates an expansive fiscal policy – are at the core of the short-term economic rationale

considering that the EU was in recession in 2020 (Bisciari et al. 2021).

Preliminary estimations of the economic impact of NGEU are promising. Concretely, Codogno and van den Noord (2020) estimate a GDP growth of 1.5% by 2023 and 3% by 2027 in the EU as an effect of NGEU (also see Bukowski et al. 2021). In addition, Pfeiffer et al. (2021) show that the economic impact of NGEU will amplify through a fiscal spill-over effect (via trade flows and financial markets) across the EU. Moreover, Christie, Claeys, and Weil (2021) argue that NGEU is beneficial for EU capital markets and the financial architecture of the eurozone. In sum, “[e]ven if NGEU has only a modest effect on growth, all EU countries are net beneficiaries” (Darvas 2021:15; see Picek 2020).

However, despite its potential economic benefits, scholars highlight that NGEU should have become a permanent instrument (Christie, Claeys, and Weil 2021); and that it is a second-best option to the creation of a Eurobond and permanent fiscal capacity of the EU (Codogno and van den Noord 2020). In this context, Alcidi and Gros (2020) suggest that NGEU does not represent a genuine fiscal capacity, but it is rather a combination of a shock absorber and an EU budget extension. From a broader perspective, Ceron and Palermo (2021) argue that NGEU does not have the capacity to address existing structural asymmetries within the EU.

3. Social equity: a guiding principle for policy-making

As indicated in the introduction, we explore these opportunities and challenges of NGEU under the lens of social equity. The idea of social equity is to account for and correct a power imbalance between advantaged and deprived social groups (Guy and McCandless 2012). In the broadest sense, social equity embodies the narrative of a persistent search for social justice and improvement of social standards. Such an encompassing approach to social equity entails empirical and normative aspects. The former concern the fact that those who are the most disadvantaged should receive the greatest benefits. The latter regards a redesign of institutional structures

1 in 2018 prices; € 806,9 billion in current prices.

2 in 2018 prices; € 723,8 billion in current prices.

that are not socially equitable (Wooldridge and Gooden 2009).

In this context, it is vital to distinguish equality from equity as the two concepts tend to be used interchangeably. Equality primarily concerns the sameness in resources and starting conditions (e.g., both native and non-native pupils receive the same instruction in school), whereas equity regards the outcomes (e.g., non-native pupils may not excel in school at the same pace due to a language barrier). Thus, there may even be a trade-off between equality and equity in that the same resources yield different outcomes (Guy and McCandless 2012). Thus, it is sensible to highlight conceptual and measurement complexities of social equity (Guy and McCandless 2012; see Gooden 2017) that derive from context-specific political and economic realities.

In terms of policy-making, social equity constitutes the so-called fourth pillar of public administration in addition to economy, efficiency and effectiveness (Wooldridge and Gooden 2009). To this end, for instance, social equity has proven relevant in fields such as education (Rizvi and Lingard 2011; Blankenberger and Williams 2020) and non-work (Grengs 2015).

Importantly, social equity has received scholarly attention notably in the context of the COVID-19 pandemic. Topics of interest include racism (Wright and Merritt 2020), communication to public (Viswanath, Lee, and Pinnamaneni 2020), vulnerable communities (Gaynor and Wilson 2020), public transit (Palm et al. 2021), and domestic violence (Rauhaus, Sibila, and Johnson 2020).

The indicated studies highlight the disproportional impact of the pandemic on specific social groups. Moreover, to a large extent, they underline the need to employ social equity as a guiding principle in policy-making which nurtures socially favourable policy outcomes. In the sense of becoming a guiding policy-making principle, social equity may 'exist' in minds of decision-makers; it constitutes a measurable administrative goal; and it serves as the lens that defines (policy) needs and priorities (Guy and McCandless 2012).

Against this backdrop, we consider three (out of five) dimensions of social equity – *access and distribution* (less advantaged groups ought to receive relatively greater benefits), *outcomes* (equal level of outcomes concerning socio-economic conditions) and *related responsibilities* (opportunity for all groups to express their views) (Svara and Brunet 2005) – and explore how they may unravel in the context of NGEU, which, at least based on the political promise, prioritises the social dimension and corresponding policy outcomes.

The analysis is limited to the selected three dimensions of social equity as they sufficiently reflect supranational policy-making practices, which are at the core of NGEU. In the present analytical context, the remaining two individual-focused dimensions – *procedural fairness* (fair and equal treatment of individuals and protection of their rights) and *quality* (consistent quality in delivery of services) are regarded as less relevant. Nevertheless, due to the early stage of NGEU's operation, insight from this analysis is preliminary and descriptive (and may be re-evaluated empirically at later stages of NGEU implementation).

4. Tracing social equity in NGEU

We exclusively focus on what we deem as an operational aspect of tracing social equity and its dimension in NGEU.³

The operational aspect of the analysis concerns the conditionality element of NGEU and challenges in implementation of national recovery and resilience programs (NRRPs). To benefit from NGEU, each member state ought to develop a national strategy (NRRP) that should meet policy priorities stated in the Country-Specific Recommendations (CSRs), the main policy-oriented output of the European Semester, i.e., the EU's annual economic and employment policy coordination cycle. Moreover, the EU institutions have to approve NRRPs which must be implemented within three years upon approval (Messori 2020).

The conditionality element thus entails risks that reflect the *outcomes* as well as *access and dis-*

³ Nevertheless, we acknowledge that alternative analytical approaches to the issue at hand, such as normative/structural ones that broadly concern institutional changes at the EU level induced by the pandemic, should also be examined under the lens of social equity.

tribution dimension of social equity. The most prominent issue is arguably divergence in institutional and administrative capacities of member states to select, develop and implement projects funded through NGEU (Bańkowski et al. 2021; Bennetot Pruvot and Estermann 2021; Jones 2021). This may lead to inefficient allocation of resources and limited value-added of NGEU (Beetsma, Codogno, and van den Noord 2020). The divergence in institutional capacity to absorb NGEU funds was also one of the concerns in negotiations around NGEU highlighted by the so-called ‘frugal four’ member states (Austria, Denmark, the Netherlands and Sweden) (see Begg 2020; Lionello 2020; Messori 2020; de la Porte and Jensen 2021; Jones 2021 for discussions on NGEU negotiation process).

From a social equity point of view, divergence in institutional capacity among the EU’s member states may result in different levels of outcome – i.e., success and effectiveness of NRRPs and projects related to them – regardless of relatively equal starting conditions considering that member states will acquire funds proportional to the extent they were hit by the COVID-19 pandemic. To this end, research has shown that high administrative and governance capacity is a prominent factor in a member state’s capacity to absorb EU funds effectively (see e.g., Tosun 2014; Kersan-Škabić and Tijanić 2017; Marin 2020).

Hence, in the NGEU context, there is a potential trade-off between equality and equity due to the divergence in institutional capacity among the member states. This may affect the extent to which relatively poorer member states with lower institutional capacity were supposed to benefit from NGEU. Hence, along the *outcome* as well as *access and distribution* dimension of social equity, NGEU may be contested. In other words, one can argue that social equity ‘exist[ed]’ in the mind of the Commission in crafting NGEU, but truly socially equitable outcomes may be a challenge to achieve due to the operational setup of NGEU.

Therefore, socially favourable outcomes presumably operationalised in member states’ NRRPs ideally ought to be aligned with national institutional capacities to absorb EU funds. Such an approach potentially ensures that at least

a portion of socially favourable outcomes are feasible and tangible notably from the implementation perspective.

Arguably, a prominent factor of achieving such an alignment is inclusion of national social partners and vulnerable groups stakeholders in the development of NRRPs. Thus far, social partners and vulnerable groups stakeholders had little impact on EU policy-making matters especially in the context of the European Semester (see e.g., Sabato, Vanhercke, and Spasova 2017; Kraemer 2020). Thus, considering that NGEU emphasises the social dimension and is arguably a symbol of European solidarity, it is pertinent that these actors get actively involved in the development of NRRPs. Their role directly relates to the *related responsibilities* dimension of social equity. In this sense, NRRPs represent an opportunity to reverse dissatisfactory involvement of social partners in EU policy-making.

5. Conclusion

In sum, NGEU as the EU level response to the COVID-19 pandemic is a potential ‘game changer’ both in terms of governance and policy-making. It is a symbol of European solidarity and has a strong economic rationale. As such, NGEU represents an opportunity to reinvigorate the social dimension of EU (economic) governance.

The descriptive analysis in this policy brief examined NGEU under the lens of social equity and points to three (preliminary) conclusions:

1. Member states need to carefully operationalise the social equity dimensions in their NRRPs both as policy-making guideline and in terms of socially favourable policy outcomes.
2. National social partners and vulnerable groups stakeholders need to be actively involved in development of NRRPs.
3. The overarching aim and specific (project) objectives of NRRPs need to be aligned with the national institutional capacity to absorb EU funds.

These three main conclusions may serve as broad indicators in approaching NGEU and NRRPs from a national perspective rather than

concrete recommendations. As the social equity dimension of NGEU (notably in terms of policy outcomes) will only materialise in the medium term, specific recommendations on this matter are premature. The submission of NRRPs may yet serve as a sensible starting point to examine potential social equity concerns and effects of NGEU in a more empirically saturated manner.

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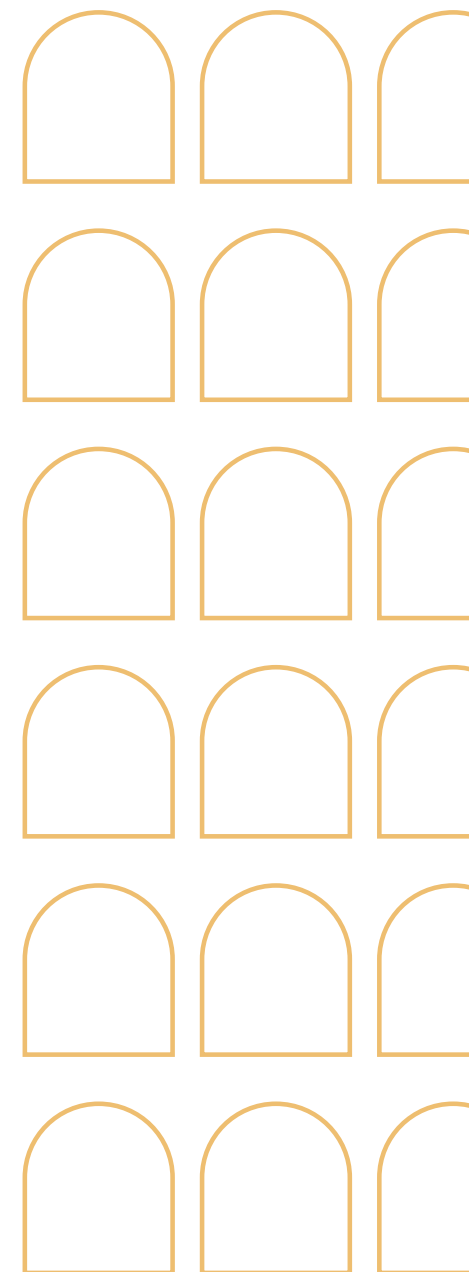
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