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Introduction

The adoption of the Next Generation EU (NG-EU) strategy is a significant breakthrough with respect to the confrontation that took place between the Member States on the 2021-27 Multiannual Financial Framework (MFF) before the Covid-19 outbreak.

With the Communication of January 14 on the Sustainable Europe Investment Plan, the European Commission translated the programmatic indications of President Von der Leyen on the Green Deal into demanding proposals regarding the allocation of resources necessary to trigger the new development strategy. This was followed by the Negotiating Box presented on February 14 by President of the European Council Charles Michel, which corrected the previous restrictive MFF proposal formulated on December 2 by the then Finnish Presidency and opened more budgetary spaces to take into account the Commission Communication. On that Negotiating Box a tough confrontation began between the Member Countries with Austria, Denmark, Holland and Sweden opposing the budget increase proposed by the President and most of the remaining Member States, with Italy, France and Spain in the lead, in favor of an even more ambitious budget.[1]

It is this framework that, in the aftermath of the pandemic explosion, underwent substantial acceleration, leading in just over four months to the launch of Next Generation EU by the European Council on July 17-21. In addition to the MFF, the Council allocated 750 billion euro of resources to strengthen the structural foundations necessary to support a strong and lasting recovery of the economies of the Member States once the health situation is brought under control. The extraordinary allocation approved by the Council in July, and accompanied by some limited changes to February's Negotiating Box, constitutes a new structure of the EU's multiannual budget aimed at supporting both

[1] On this issue, reference should be made to C. De Vincenti, "The European Green Deal and its impact on the 2021-2027 Multiannual Financial Framework", in L. Paganetto (editor), ***Europa e sfide globali. La svolta del Green Deal e del digitale***, Eurilink University Press, Roma, 2020.

the exit from the economic crisis induced by the Coronavirus and the start of the new growth strategy based on green economy and digital innovation.

This brief aims to clarify the allocation of funds which, according to the Commission documents, derives from the integration of the Next Generation EU resources in the 2021-27 Multiannual Financial Framework and the resulting new budget approach.

The 2021-27 Multiannual Financial Framework integrated with NG-EU

I will avoid retracing the steps that led from the 2021-27 MFF proposal made by the Juncker Commission in May 2018 to the Negotiating Box of February 14, 2020 and finally to the Council proposal of July 17-21. I will focus on the final result (which, moreover, has yet to be submitted to the approval of the European Parliament and national parliaments) to highlight, through the comparison with the 2014-20 MFF, the sense of the economic policy breakthrough made by the Von der Leyen Commission.

The comparison is summarized in Table 1, which shows the main budgetary figures in real terms, that is, valued at 2018 prices. Before analyzing it, a premise will be necessary, which is also related to the effects of Brexit. In the table, the resources made available to the 27 countries for the 2021-2027 period by the ordinary budget as resulting from the July Council meeting are equal to 1,074 billion euro. The total availability of the 2014-2020 MFF shown in the table for the 27 countries was equal to 1,083 billion euro, so that in the first instance there seems to be a reduction in the ordinary allocation, although of course it is more than offset by the extraordinary allocation of 750 billion euro made with NG-EU. This conclusion, however, would be misleading: Brexit meant the exit from the EU of a net contributor, with the consequence that, given the same incidence on the GDP of the remaining 27 Member States (1.03% as in the 2014-20 period), the availability of resources for the ordinary EU budget would drop to € 1,050 billion for the 2021-2027 period. This means that the 1,074 billion euro shown in the table for the 2021-2027 MFF net of NG-EU represent an increase in resources made possible by an increase in the incidence on the GDP of the member countries and therefore by a fiscal effort also in the ordinary budget. Then, adding the 750 billion euro of extraordinary allocations deriving from NG-EU, the total amount of resources put in place by the EU budget between now and 2027 is brought to 1,824 billion euro.

Looking now at the composition of the budget net of the extraordinary resources contributed by NG-EU, compared to the 2014-2020 period, we see significant increases in allocations to the so-called European public goods, namely the items "Single Market, Innovation and Digital" (132 billion euro against 116 billion in the previous period), "Migration and Border Management" (23 billion euro against 10 billion), "Security and Defense" (13 billion euro against 2 billion). The increases in these last two items of expenditure are significant, although they are probably still lower than what is necessary to manage the responsibilities of the EU in the international scenario. In any case, the increase in absolute value of the resources allocated to the item "Single Market, Innovation and Digital" is very significant. It contains subitems of absolute importance, such as "Research and Innovation" (in particular ***Horizon Europe***), "European Strategic Investments" and "Space". The item "Neighbourhood and the World" (98 billion euro) has also increased, but only to some extent. In this regard, we must point out that there is still not enough awareness that it is in the EU's general interest to invest in third countries, particularly in Africa.

The space for this increase in resources for European public goods is obtained through a decrease in the funds available to the Common Agricultural Policy, in particular those for the First Pillar, the European Guarantee Fund, which is reduced from 286 billion euro in the 2014-20 period to 259 billion in 2021-27, and also those of the European Fund for Rural Development: in total the resources for the CAP drop by about 44 billion euro compared to the 2014-20 period.

On the other hand, the two main cohesion funds, which are essential for supporting real convergence processes between Member States on an economic and social level, remain substantially unchanged: the Regional Development Fund (ERDF) goes from 201 billion euro in the 2014-20 period to 200 billion for 2021-27; the Social Fund (ESF) from 90 to 88 billion euro.

Thus, in sum, the structure of the ordinary budget sees the safeguarding of cohesion policies and an internal reorganization in favor of European public goods - research and innovation, trans-European networks, migrant management, security and defense - with respect to the Common Agricultural Policy. This is an allocation of the ordinary budget that consolidates the basic lines of the Juncker Commission's proposal of May 2018 (which, moreover, provided for a total amount of resources that was greater by about 60 billion euro), then taken up in Charles Michel's Negotiating Box of February 14, 2020.

The extraordinary commitment of New Generation EU resources is grafted onto this ordinary budget structure. The greatest impact - 722 billion euro - is aimed at supporting policies for the recovery and convergence of all the EU Member States, integrating funds for cohesion with the Recovery and Resilience Facility and with React EU. To a lesser extent, but still important, NG-EU allocates resources to the Just Transition Fund, intended for the disbursement of contributions to the territories where the greatest problems in terms of economic and social costs of the ecological transition will be encountered, as well as to the Fund for Rural Development - investments on agricultural infrastructures - in order to partially compensate for the cut it has seen in the ordinary budget. Finally, it assigns additional resources to the item "Single Market, Innovation and Digital".

The overall result greatly strengthens the reallocation, which was begun within the ordinary budget, by committing unprecedented resources to policies of investment in research, innovation, digital, infrastructure and cohesion. It is a framework within which, thanks to the contribution of Next

Generation EU resources, the same strategic innovation of the Green Deal proposed the day after its inauguration by the Von der Leyen Commission becomes more feasible.

The budget and the strategy for sustainable growth

With the Communication of January 14, the European Commission indicated the essential features of the Green Deal strategy: more ambitious environmental objectives by 2030 in order to more effectively support the achievement of the climate neutrality goal by 2050; given the overall amounts envisaged for the macro-items in the budget, the reorientation of the resources allocated in the 2021-2027 MFF towards green investments and the introduction of a Just Transition Mechanism to absorb the economic and social costs of the transition to a zero-emission economy.[2]

Now, with the Communication of September 17, 2020, the Commission is indicating how the Recovery and Resilience Facility (672 billion euro of the NG-EU's 750 billion) should be used by Member States in the framework of the Green Deal, that is, to use the words of Communication, for "shifting towards a sustainable and inclusive economic model, enabled by a broader diffusion and uptake of digital and clean technologies, ... Rather than mark a departure from the pre-COVID-19 agenda, the Recovery and Resilience Facility should speed up action to address pre-existing challenges while avoiding any new setbacks linked to the crisis".

National plans for recovery and resilience will have to "reflect the relevant country-specific challenges and be aligned with the EU's priorities", taking into account the country-specific recommendations formulated in the European Semester. Reforms and investments must focus on those priorities that "will generate the most lasting impact and will strengthen the growth potential, job creation, health systems and economic and social resilience and regional cohesion of the Member State". There are four guidelines that must orient the national plans:

- the green transition, to which at least 37% of the expenditure envisaged in the national recovery and resilience plan has to be dedicated in order to obtain an overall result of 30% in the allocation of the integrated MFF-NGEU resources;
- the digital transition aimed at supporting productivity dynamics, to which at least 20% of the expenditure of each plan has to be dedicated for investments in networks and the development of the population's digital skills;
- equity and social and territorial cohesion, investing in education, training, social inclusion;
- macroeconomic stability, "safeguarding fiscal sustainability in the medium term" in order to prospectively reabsorb the effects on the debt due to the higher deficits allowed by the activation in 2020 and 2021 of the general safeguard clause which, however, as specified in the Communication, "does not suspend the procedures of the Stability and Growth Pact".

[2] See previous footnote.

The Communication is accompanied by a Staff Working Document containing the Guidelines for the drawing up of National Plans by the Member States: compliance of the reforms and investment projects proposed by the individual state with the indications formulated by the Council and the Commission; definition of objectives, timing and control mechanisms; methods of economic-financial evaluation of proposals; complementarity in the use of the resources of the Recovery and Resilience Facility with resources from other European funds in order to ensure overall consistency of each national plan; estimated short- and long-term effects of increasing GDP and strengthening the growth capacity of the Member State.

Conclusion

The combination of the 2021-2027 Multiannual Financial Framework and Next Generation EU constitutes a commitment of resources unprecedented in the history of the European Union: a major investment in the recovery and consolidation of the continent's growth capacity and in its social and territorial cohesion. A fiscal effort of this size must be accompanied, and this is what the Commission is doing, by a well-defined framework of the objectives and methods of using the resources and of the evaluation criteria that will be followed in the process of validating the National plans.

This is a very demanding framework for Italy. It requires a qualitative leap in the ability to coordinate and define priorities, in the effectiveness of administrative action, in the development of public investment projects that can be implemented within the timeframe indicated by the EU and in the support for business investments.

Table 1

2021-27 MFF + NG-EU
vs.
2014-20 MFF (EU27)
(billions of euro, 2018 prices)

	2021-2027					2014-2020
	Budget		NGEU		Tot.	Budget
Total Budget	**1.074**	+	**750**	=	**1.824**	**1.083**
Single Market, Innovation and Digital	**132**	+	**11**	=	**143**	**116**
Cohesion, Resilience and Values	**378**	+	**722**	=	**1.100**	**387**
of which: ERDF	***200***			=	***200***	***201***
ESF+	***88***			=	***88***	***90***
React EU			***47***	=	***47***	
RRF			***673***	=	***673***	
Natural Resources and Environment	**356**	+	**18**	=	**374**	**400**
of which: EAGF	***259***			=	***259***	***286***
EAFRD	***78***	+	***7***	=	***85***	***95***
JTF	***7***	+	***10***	=	***17***	
Migration and Border Management	**23**			=	**23**	**10**
Security and Defense	**13**			=	**13**	**2**
Neighbourhood and the World	**98**			=	**98**	**96**