NATIONAL RECOVERY AND RESILIENCE PLANS

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CONTENTS

EIGHT

'RECOVERY AND RESILIENCE'—HOW THAT LOOKS FROM THE EAST

IMRE SZABÓ

Preparations are in full swing to spend the €724 billion available from the European Union's Recovery and Resilience Facility (RRF), as most member states have secured the European Commission's endorsement for their national recovery and resilience plans (NRRPs). The commission however keeps postponing approval of the NRRPs of Hungary and Poland , as a further step in the slow-burning conflict between EU institutions and the illiberal governments of those two countries.

Member states in central and eastern Europe (CEE) have been the main net beneficiaries of EU budgets since their accessions. Amid the tug-of-war between the commission and certain of their governments, it is worth exploring the impact of previous EU budgets on the region and whether the RRF might represent a departure from earlier spending patterns.

East-west gap

One of the main purposes of the EU budget is to strengthen territorial cohesion, by reducing inequalities across EU regions and member states. At accession in 2004 and 2007, the relative underdevelopment of eastern member states qualified them for a large share of the cohesion and regional funds. The significance of EU funds even increased for them over time, in parallel with the shrinkage of their domestic fiscal space (itself partly due to enhanced budgetary surveillance by the EU's 'new economic governance' regime).

The influx of EU money has led to a visible improvement of physical infrastructure in eastern Europe. New highways, refurbished train stations and manicured town centres are tangible evidence of the benefits of EU membership for citizens.

Yet the east-west gap has not disappeared—it has just changed its character. It is no longer about the contrast between a crumbling eastern infrastructure and the west's well-kept public buildings, roads and railways.

The main difference now lies in the crisis of human resources increasingly consuming the east. There is a general shortage of skilled labour in these ageing societies. But the deficit of personnel reaches crisis proportions in labour-intensive public services: education, child- and eldercare and, most importantly, healthcare.

Due to low public-sector wages and often humiliating working conditions, fewer and fewer people are left in the essential public-service professions of medicine, nursing and teaching. This has been aggravated by emigration in search of better wages and working conditions to 'old' member states, taking advantage of the right to free movement within the single market.

Unable to offset

EU investment funds have not been able to offset these processes—they were not even intended to, as they were not designed to finance wages apart from in fixed-term, project-based employment. EU funding overall is heavily tilted towards investment in physical infrastructure and in eastern Europe at best supports a revival of strategic industrial policy.

The pandemic exposed these contradictions in a tragic way, the Hungarian case being the most instructive. In a country where many hospitals have been renovated with EU funds and equipped with cutting-edge equipment, the biggest obstacle to effective treatment of patients was the shortage of staff.

The government prevented the collapse of the system by introducing *de facto* military rule for healthcare workers. For the duration of the emergency, legislation prohibited nurses and doctors from quitting their jobs and allowed managers to redeploy staff across distant locations.

The links to the single market are nuanced but clear: the ban on resignations served as a roundabout way to limit freedom of movement for healthcare workers. While not acknowledging this, the government relied on these drastic measures during the pandemic because previously it had not taken sufficient steps to address the exodus of healthcare workers to the west. It was also content with pouring EU funds into bricks and mortar—thereby nourishing a political-cum-business elite with very close ties to the governing party.

Innovative proposal

Can the new EU long-term budget and the RRF be a turning point? The priorities of the traditional financial framework remain largely unchanged and the new priorities, of climate investment and digital transition, are also infrastructure-heavy. At the same time, governments have some leeway in setting their own priorities. And, looking at the plans, there is at least one innovative proposal coming from an unlikely place.

Hungary's NRRP includes a large expenditure item, of close to €1 billion, partially to cover salary increases for medical doctors, thereby moving the human-resources issue into the domain of EU politics. The appearance of public-service wages in the NRRP signals a turnaround in the government's preferences as to how it spends EU money. Its acceptance by the commission would be close to a sea change in EU budgeting (though the RRF was announced only as a temporary instrument).

But why should the EU provide support for a current spending item in an area within member states' core competences—the financing of government employees' wages? The Hungarian government argues that wage increases are part of structural reforms and anti-corruption measures in healthcare. In particular, they are linked to the fight against the longstanding practice of informal payments by patients to medical professionals in Hungary. The country-specific recommendations (CSRs) issued in the European Semester framework in 2020 also call on the government to address labour shortages in healthcare.

Rife with contradictions

The current proposal is rife with contradictions, most importantly because it does not extend to nurses and other healthcare staff. Wage increases these groups have received in recent years have been more modest than those offered to doctors—not to mention continuing wage suppression in education and other public services.

Moreover, the wage settlement is part of a broader healthcare reform plan to reduce hospital capacity while strengthening outpatient and primary care—a goal shared by the EU CSRs and the Hungarian government. While in theory and in the long run 'shifting care out of hospitals' is a good idea, in the wake of a pandemic any responsible policy-maker should plan for some slack in the system in case of another emergency.

Despite these contradictions, and despite coming from an otherwise extremely right-wing government, the idea of supporting healthcare wages from EU funds could open the way for more progressive EU budget policies. It could even be read as an acknowledgement that the EU is on the way to doing more to preserve the free movement of labour in times when this principle is increasingly contested, in host and sending countries alike.

This salvage operation should resolve the underlying tensions that make free movement of labour a contentious issue—such as the east-west gap in wages and working conditions, particularly wide in public services. An acknowledgement of joint responsibility by the EU and CEE member states to address the human-resources crisis in public services could be part of this process.

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