CHAPTER 2

TOWARDS A STRONGER AND LARGER EUROPE

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Combining crisis mitigation with reforms

The goal of this chapter is to analyse the status of the European unification project: its tremendous success, but also the problems it faces on the road to the future. We present crossroads for European Union (hereinafter EU) member states and Europe, as well as ways through which governance has to be improved. Particular emphasis is placed on Southern Europe and its forfeited chances to serve as a bridge to the southern and eastern non-European neighbours, or as a spearhead of renewable energy.

The European Commission has presented its vision of a "European Green Deal" combined with a Social Europe (European Commission 2019). This could be a narrative uniting Europeans and allowing the EU to play a broader geopolitical role. Nevertheless, the road is "bumpy" due to internal opposition from populist leaders in several countries longing for a past glory that never actually existed, and due to the external influence of former President Trump and current President Putin, who both sought, and the latter still seeks, to weaken Europe. Another problem is that high levels of already existing debt in some member states, plus heavy investments needed for achieving climate neutrality, and finally, the deep recession caused by the Covid-19 pandemic, all require big spending. If this later leads to substantial tax increases, recovery will come late and will be weak. It is all-important to develop synergies between (i) public sector reforms and an improved European budget (Multiannual Financial Framework - MFF), (ii) climate policy, and (iii) stimulus packages against

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the crisis. I conclude that the enlargement of the EU to the Western Balkans and relevant partnerships with neighbouring countries can make Europe stronger and more capable of shaping globalisation.

The deepest recession of the past 70 years

European countries have decided to spend large amounts of money in order to mitigate the Covid-19 pandemic consequences. The planned programmes of the 27 EU member states are larger in relation to the economic output (Gross National Income - GNI) than in the United States of America (hereinafter US), and they are further topped by the EU itself. The stimulus started earlier than in the US and more quickly than the expansionist policy after the financial crisis.

This was no easy task and was not a matter of course. The goal of zero deficits had not yet been reached, and some countries like France, Italy and Greece still had high debts relative to their annual economic output at the start of 2020. The rules of the Fiscal Compact and the excessive deficit procedure adopted in the wake of the financial crisis would have demanded further debt cuts. However, after the last crisis, Europe has also created facilities for financing new expenditures in the case of new crises. The European Stability Mechanism (hereinafter ESM) has been installed, as well as the European Fund for Strategic Investment (EFSI), both separated from national budgets and leveraging small capital inputs into large facilities via the European Investment Bank (hereinafter EIB). The European Central Bank (hereinafter ECB) has increased money supply, inter alia by buying bonds from governments and even large firms.

In the midst of the Covid-19 crisis, the enactment of the Recovery and Resilience Facility (hereinafter RRF) by the EU has made it the centrepiece of NextGenerationEU, a temporary recovery instrument that allows the European Commission to raise funds to help repair the immediate economic and social damage brought about by the Covid-19 pandemic. The RRF will make €672.5 billion in loans and grants available to support reforms and investments undertaken by member states. Thus, the use of a form of Eurobonds has been made possible. Moreover, additional expenditures have been by now authorised by the EU without penalties by financial markets for countries with large debt. The question of how much conditionality can or should be added to EU financial aid remains important.

If we compare the reaction in Europe with that in the US, we see that the US entered the Covid-19 crisis with a larger budget deficit and reacted later. After first criticising China for being the origin of the problem, a rather high stimulus was eventually planned. This is needed even more in the US due to an expensive health sector that is not accessible to less privileged people, such as migrants and those of African descent. New expenditures, even on top of very large deficits and debts, are easier in the US due to the privilege of the dollar as an informal reserve capacity. This increasingly irrational competitive advantage has to be addressed in a new European strategy, perhaps in cooperation with China and other large net investors. European safe bonds and the denomination of more international contracts in euros would be part of a strategy to enhance European economic power in the globalising world and guarantee low-interest rates without the current efforts of the ECB.

Europe as a success model in midlife crisis

In historical comparison, the EU has become a firmly established success model. It started with six member states and now has twenty-seven, developing from a free trade agreement (initially restricted to coal and steel) to a common market. The majority of the EU member states use a common currency, which —despite short-run crises in its first decade— is now much more stable than during its initial adoption, challenging the dominance of the US dollar. On a formerly conflict-ridden continent, no military conflict has taken place between the member states for over seventy years. The rule of law, as well as conflict management, is extended to countries applying for membership. The former socialist countries have been integrated in a shorter time than any other transformation in history; for this, the EU has been lauded as an integration machine by the World Bank (Gill and Raiser 2012). Europe is called a soft power by leading US scholar Jeremy Rifkin (Rifkin 2004) and has been awarded the Nobel Peace Prize.

However, new problems have arisen and have led to a kind of "midlife" crisis. Economic dynamics are low, inequality is rising, and youth unemployment is irresponsibly high. Development is not even across countries and, over time, progress is often not interpreted as a European achievement, while "Brussels" is held responsible for many problems. Reforms in Southern Europe have not been implemented quickly enough, as a substantial part of production has been transferred to low-wage countries. No clusters of new firms or sophisticated industries are substituting the loss of some capital as well as labour-intensive industries (Aiginger et al. 2013). Each smaller crisis has been covered by ever-higher public expenditures, without focusing on innovation and future competitiveness. Now, East-West divides, as well as North-South splits, are endangering the consensus among countries.

Europe currently lacks a new narrative, since the peace mission is considered —erroneously— to have been fulfilled. Citizens no longer support the "ever-deeper integration", even if problems that could be more successfully answered through joint efforts are on the rise. As an outside challenge, Europe was confronted in the last four years with a US administration that intended to weaken it. This is also the intention of President Vladimir Putin, who seeks to regain political dominance in Central and Eastern Europe and the Western Balkans. China is trying to fulfil the investment needs in Southern Europe and the eastern and southern non-European neighbourhood, while, to a large extent, aiming at its own advantage, at the cost of the environment and of local workforce.

Crossroads available in the decisive year 2021

The situation is challenging, but pessimism need not be the consequence. Hereinafter I carve out four crossroads that may determine strategies for the Union and its member states. Not all countries must follow the same principles, but should at least consider the following choices.

Going for the high road vs. seeking low costs only

On a low road path, wages are cut, and social and ecological standards are declared to be too expensive. A high road strategy focuses on innovation and skills, raising energy or resource productivity, and fostering new firms and technologies. On the low road path, subsidies are needed to shelter inefficient firms from competition, while the high road path promotes change to better jobs and the production of cleaner, more customised products.

The high road path focuses on improving education, ranging from preschool to apprenticeship and technical universities, and on bolstering innovation. This is encouraged by a new definition of competitiveness, which is defined as the ability of a region or country to deliver societal goals (Aiginger 2018; Aiginger and Rodrik 2020). This leads to very different policy conclusions than defining competitiveness as the presence of cheap labour and low social standards. Firms have indirectly promoted this redefinition; when they sell shares at the stock market, they never claim to have found a niche of low-cost inputs, but instead persuade the buyers by marketing their outstanding competence to solve future needs with their products.

Calling back the past vs. future-oriented reforms

Populist movements led to Brexit and appear in many countries in different political constellations. Their common feature is creating a division between a virtuous "us" and a corrupt "them". They call for illiberal democracies and a return to past glory (Aiginger 2020). In Italy and Austria, populists have come into government, but have been ousted by different coalitions. In France, a populist party had taken the lead in opinion polls for several years, but has finally been defeated by a young President founding a new party. In Hungary and Poland, autocratic regimes dominate the government. After gaining power, populist regimes change the rules of voting so that a minority of voters is converted into a majority in the legislature. Furthermore, they dismantle the division of power between the parliament, the government, and the judicial branch. They fight against migration, even if they essentially need immigration since they are depopulating. Reasons for the success of populism are economic and cultural, but also related to regional distress and deindustrialisation in rust belts. Policy failures and a fear of "population exchange" through the mass migration of people from different cultures support the political gains of populists.

A counterstrategy consists of four stages (Aiginger 2020). It starts with an open discussion of the problems, but also rejects pessimism and the narrative that everything was better in the past. Then, a vision is to be offered of where a country or region wants to be in 2030. Furthermore, if citizens approve of the vision, the issues of which instrument will be used and which cooperation with other countries or international organisations might help are considered. Future-oriented reforms are based on education, training and innovation, and not on an idealisation of the past.

Cheap fossil energy vs. efficiency plus renewables

In the past, cheap oil or coal formed the basis of efforts to catch up and strive for high growth. As oil and coal reserves became smaller relative to demand, new imports and expensive and environmentally detrimental methods (deep-ocean or horizontal drilling) became necessary, and fossil energy had to be subsidised. Currently, subsidies for fossil energy are much higher than those for clean energy. The US returned to this path under the Trump administration, starting from a level where energy efficiency is one third of that of Switzerland and half of the European average.

Europe can follow this path or alternately try to boost energy efficiency and shift energy use from fossil fuels to clean energy. Modal shifts in transport and traffic are possible, and electric cars are already cheaper than diesel or gasoline-driven ones if the life cycle costs are calculated instead of the purchasing price and if firms are prevented from offering luxury electrical vehicles with high power and speeds not allowed on highways, let alone cities. Efficient European battery production could reduce the cost of electric cars, in addition to the reuse of old batteries for storing renewable energy. Change can be accelerated through a double strategy of subsidies for the purchase and taxing of emissions. Employees and today's workers in the production and repair of combustion-driven cars have to be retrained to be able to switch to digitalised jobs or the construction of zero or positive energy houses; otherwise, they are taken hostage by lobbies to prevent decarbonisation.

Industrial policy for ailing champions vs. support of societal goals

There are not many examples of success among countries pursuing an industrial policy. Specifically, countries supporting their own large firms through public procurement, subsidies or protection tend to experience a strong decline in the share of manufacturing, leading to a trade deficit. European industrial policy did not follow this path and has stressed horizontal policy measures.

A future-oriented industrial policy should be driven by societal goals. Correcting market failures is important, but the goals of industrial policy are wider; they include market shaping, mission orientation, and the provision of new basic technologies. Governments should only intervene if there are long-run interests, not for the short term. Their goals and instruments should be communicated with citizens, since the success and demise of industrial policy leads to successful clusters or forgotten regions respectively. Regions with decreasing populations and underinvestment in infrastructure constitute hotspots for populism and a threat to liberal democracy. Societal goals in a new systemic industrial policy include climate change, health, poverty prevention, and the reduction of inequality (Aiginger and Rodrik 2020).

Towards a governance fitter for the European future

European governance is a compromise between designing a common policy and respecting differences in the priorities of independent member states. With the enlargement of the EU to peripheral countries and the deepening from a Free Trade Area to a Currency Union for the majority of its member states, along with new challenges due to globalisation, migration, and the financial crisis, the decision processes have become even more complicated.

Combining top-down goals with bottom-up preferences and innovations

Global challenges call for common European solutions. Yet, several member states and a substantial share of citizens are requesting less intervention by "Brussels". The solution for this dichotomy is that the EU sets common goals and empowers or obliges member states to choose implementation according to their own preferences and abilities (Aiginger 2017). This technique is well applied in the climate question. The Paris Treaty, which all member states and the EU have signed, sets the goal of limiting global warming to less than 2 degrees Celsius. Each member state can then decide which instruments it will use and which innovations it will develop. The national strategy must be elaborated and developed in the form of an annual climate plan, which is then judged by experts from the Commission. If an inadequate plan must be improved, which is usually the case, further monitoring of the adherence of national policy to the more ambitious reform plan is necessary. If more coordination reduces costs or increases effectiveness, norms and standards can be set at the global level during the annual or biannual climate conferences that are organised by the UN in different countries, so as to increase national commitment.

Combining top-down necessities with bottom-up choices also applies for the Fiscal Compact and financial stability. The Europe 2020 Strategy sets goals for Research and Development (R&D), and then member states can choose national targets, while labour market indicators are closely watched and compared, as is social coherence in the European Pillar of Social Rights that was added recently. Economic performance, as well as the adherence to broader goals, is then summarised in the European Semester. This procedure starts with a growth projection and general priorities set by the European Commission. Then, each member state must report measures for implementation, and finally, the European Commission evaluates them by offering "country-specific recommendations". This process is in principle a good mix of top-down and bottom-up policy, but should be made more binding, while climate goals, tax structures, and regulatory burdens should gain larger attention. The citizens of each member state should be informed about priorities and deficits in a dialogue.

Streamlining decisions

Decisions by the EU tend to go in the right direction in the medium and long run, but slowly, and generally after some negative events reveal deficits. Non-adherence to the conditions set for entering the Eurozone led to the huge debt of Greece. Low R&D expenditures, along with insufficient educational systems and vocational training, have led to deficits in budget and trade in other countries, including the founding members and former manufacturing strongholds of Italy and France. Reluctant adoption of the tasks of the ECB, ranging from a single focus on price stability to the dampening of high interest rates for individual countries and still later the support of investment, caused a sluggish recovery after the financial crisis and a period of instability for the euro. To some extent, this is the result of the fact that Europe is only slowly changing from an economic to a political Union. Maybe even more so, this is the result of a very sophisticated and complex distribution of tasks between the institutions, namely the European Commission, the European Council, the Council of the European Union, and the European Parliament. The governance design should not be that of a strong European executive, able to overrule the interest of member states and even more of small member states. Even if the model of the "United States of Europe" is not supported by many experts and political groups, there is an overwhelming consensus to strengthen the role of the European Parliament by giving it the right for legislative initiatives, abolish the unanimity requirement (perhaps with some exceptions) in the Council of the EU, and facilitate the existing instrument of enhanced cooperation (in which a subgroup of member states go ahead in a policy field).

Making Europe a financially stable region

European financial stability has been strengthened after the financial crisis and the Eurozone crisis through the creation of the ESM and a European banking surveillance structure. Capital requirements are set, and stability will increase even more in the upcoming Banking Union. One goal is that the money of European citizens should never again be used for bailouts. The success of the new policy is shown by a smaller variance in the interest rates of government bonds between member states.

Connecting migration with ageing and depopulation

As far as immigration is concerned, there is still no system that, on the one hand, is compatible with humanitarian law and, on the other hand, respects the problems of the country of entry, not least the needs of depopulating regions and industries with a short supply of labour. The Dublin process looked well-designed but was not enough to handle disruptive immigration waves concurring with populist opposition to needed migration. Quotas for member states according to income and employment would be rational but are rejected at least by many member states. A solution could be to delegate the decision to regions or cities and to combine the acceptance for migrants with financial incentives. If a region loses population and does not want to go into cumulative depopulation and deindustrialisation, it can apply for migrants and get funds for investing in new firms, better schools and infrastructure. This would reduce regional distress and, at the same time, lower the burden for the country of entry. Refugee camps could become less crowded and inhumane and migrants could be directed towards locations where they are welcomed, needed, and integrated.

Table 2-1 Population - fewer young people, doubling of 65 (plus)

	1990/ 2000	2000/ 2020	2000/ 2050	1990/ 2000	2000/ 2020	2000/ 2050	1990/ 2000	2000/ 2020	2000/ 2050
	Total			**1 to 19 year olds**			**20 to 29 year olds**		
EU27	2.6	4.5	5.1	-11.2	-8.7	-15.3	-5.2	-16.3	-21.2
EU – East	-1.9	-5.7	-15.3	-16.8	-27.3	-39.0	11.2	-31.5	-45.0
EU – South	2.5	8.0	6.5	-20.0	-2.6	-17.3	-1.1	-28.3	-33.2
Greece	6.8	-2.3	-17.5	-15.7	-10.4	-27.2	15.7	-36.6	-52.7
Spain	4.4	14.8	21.4	-22.4	6.5	-1.4	7.6	-31.3	-22.9
Italy	0.4	6.6	3.6	-19.3	-4.5	-22.9	-10.7	-23.7	-34.5
	30 to 64 year olds			**65 (plus)**					
EU27	8.4	6.9	-8.6	19.5	35.3	98.5			
EU – East	-0.4	3.8	-22.3	17.9	36.0	91.1			
EU – South	9.6	14.4	-10.9	27.3	35.4	115.7			
Greece	8.1	4.0	-30.3	37.4	22.5	59.3			
Spain	13.4	27.4	-2.3	30.3	37.4	158.9			
Italy	7.6	8.7	-11.7	23.8	36.9	102.4			

Source: Eurostat, EU-South: Greece, Italy, Spain, Portugal. EU-East: Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovak Republic.

Partnership with neighbours

Europe is currently the largest economic region in the world and enjoys the highest standard of living, as defined by economic, social and ecological criteria. Life expectancy is high and increasing, while in the US and in Russia it is decreasing. However, in order to remain an important international player, Europe must begin implementing ambitious internal reforms and engage in a new partnership with its dynamic neighbourhood. The alternative would be to become an isolated region of less than 10% of world output and 5% of population, lower than the shares of India and South Africa. A small, ageing and shrinking Europe would be surrounded by a "ring of fire" and countries longing for a "past glory" that never existed. New hegemonies, which are often governed by autocratic regimes like Russia, Turkey, or Iran, are seeking past glory and may not refrain from requesting border changes to remain popular with their own people despite economic distress.

An inward-looking strategy calls for protection and European military buildup. A European outward strategy strives for a new partnership with its dynamic yet unstable neighbourhood. The European neighbourhood —post-Soviet and Black Sea countries, the Arab world and rising Africa— could become a driver for European exports. A new partnership policy could fight poverty and desertification, two of the root causes of disruptive migration. Shifting the focus of the military sector from potential conflicts between member countries to monitoring frontiers and helping to stabilise conflicts is needed, not least after the US retreat from its unlucky role of international interventions, leading to political chaos thereafter.

Sheltering responsible globalisation

If the EU solves its internal problems and extends to the countries of the Western Balkans, it could remain —together with its neighbours and on par with China— the largest economic power. Then, it can offer its high social and ecological standards to other countries and shape globalisation in a responsible, welfare-increasing process. Europe can support human rights and the rule of law. A sound financial sector must serve the real economy and European citizens. The euro can become one of the world's reserve capacities, dethroning the dollar. Interest rates for European government bonds will then be lower than in the US, with its much higher debt. Globalisation can step by step harmonise social and ecological standards, this time upwards.

Game changers needed in Southern Europe

Southern Europe deserves special attention. Productivity and per capita income have been low in the South in “modern times”, although Greece, Italy, Spain and Portugal have historically been leading cultures, starting globalisation and spreading their values globally, even if sometimes through force or to their asymmetric economic advantage. Up to the outburst of the financial crisis, Southern European countries managed to catch up and approach the European average at a remaining difference of ten or twenty percent. However, since the financial crisis in 2009, the catching up process has been stopped, and incomes have declined in Southern Europe. Greece, Spain, and Portugal have needed rescue programs paid for by European partners.

We cannot analyse all problems of the South here; this is done in Aiginger et al. 2013. Among these new problems, there is the double loss of capital-intensive industries (such as steel and chemicals), which have shifted to locations nearer to those of the raw materials, and those of low-cost textile industries relocated into former socialist or emerging countries. The education and innovation systems in the European South are unfit for firms competing internationally. The education system never supported practical skills, and innovation centres or clusters for high-end products were never created. Church, military systems, rich families, and ship owners, as well as the mafia, are de facto exempt from paying taxes, while a large public sector offers lifelong employment for the elite and their children. Money is transferred into tax shelters. What we can do here is list a few game changers that were developed for Greece, but many of which are also fit for other southern regions of Europe. In general, they shift the attention from the past to the future.

Creating industrial zones and clusters for innovation

Innovation zones or clusters could attract international firms that currently do not invest in Greece because of burdensome procedures and the length of legal disputes. Start-up centres may supply computer facilities, office space, meeting rooms, and joint secretarial services for new businesses starting as single-person firms. Rents, electricity costs, and taxes could be waived for young firms in such centres for one year.

Youth reform boards

Greece is still dominated by old boys' networks; it finances a large government, an expensive military, and tax-exempt ship owners. Young people have excellent command of ICT technology, but today do not find work and, if they do, they are not paid adequately, while they are underrepresented in the political process, especially young females. Given the high youth unemployment, young people tend to stay with their parents since they cannot afford to live without work in Athens and neither in the regional centres, which would be even better.

A competition for the best ideas on how to improve the chances for young people should be organised via social networks, and the best proposals could be presented in a televised event. Young people, including the winners of the contest, could then build an advisory reform board for the government, e.g., providing a "youth test" for all reforms.

Private funds managed by the Diaspora

Government funding for reforms will be limited for some time, but private funding is in principle abundant, given the uneven distribution of incomes and property, as well as the capital that is hidden tax-free in foreign banks. The foreign bank accounts should be incentivised to be returned at a lump sum payment of 25%, combined with a tax amnesty. On the other hand, if foreign accounts are not reported within a year, the full penalties by law should be applied.

Successful Greek expatriates could support their home country and monitor the use of repatriated money for reforms and new firms. Investment bonds bought by Greek expatriates or other wealthy Greeks could be managed by a Greek investment fund, managed by expatriates and the ECB. If expatriates engage more in the reform process, this can substitute the necessity for European agencies to supervise economic reforms, which is unpopular, not just because Germans are the spearheads of a tough policy for the frivolous Greeks, but also because they are reminded by left-leaning Greeks that they have not honoured their obligation for restoration payments after World War II.

Making use of the qualifications of migrants

Greece is one of the entry "havens" for immigrants looking for shelter and life chances. Migrants are forced into refugee camps or islands, where they experience hunger, unhygienic conditions, and often molestation by other refugees. Many kids lose the ability to learn and prepare for real life, if they ever manage to leave the camps. Unaccompanied children or those with only one parent suffer the most.

Quasi-governmental institutions could be set up to foster the integration of immigrants into the Greek economy and of their children into the system of preschool care. Practical skills and the entrepreneurial spirit of immigrants are needed in Greece, as service quality is often low and construction work is done by Albanians or Bulgarians. Renting boats or getting refreshments at the beach is often not possible outside the large tourism centres. The share of Greeks between 20 and 30 years old in the total population is already decreasing due to emigration, and is forecasted to be cut in half between 2000 and 2050.

Bridge to a vibrant and dynamic neighbourhood and a rising Africa

Greece has a specific geographical position compared to all other European countries. It is the closest one to the Black Sea region, the Middle East and North Africa. The distance from Athens to Cairo is 1,200 km and to Kiev 1,500 km. This is much less than the distance to Berlin, Paris, or Brussels (all more than 3,000 flight kilometers away). Historically, this location between Asia, Europe and Africa was the reason why civilisation took hold early in this region; Greek merchants took the lead in trade and Greek ideas enriched philosophy and science.

Greece could become a hub for production, exports, and trade in a dynamic geographical region. The Greek neighbouring countries are growing fast, whenever there is peace. This holds for Turkey, the Arab countries, North Africa, and even more for Sub-Saharan Africa, and to a lesser degree, for former Soviet Union countries and the Western Balkans.

Regional leader in decarbonisation

Greece is an energy- and resource-intensive society with a high input of coal, oil, and gas. Imports of fossil energy are large and have turned the trade balance into the negative. Large subsidies for fossil energy are maintained, preventing energy-saving technologies and the inroads of alternative energy. They are also a heavy burden for public budgets.

Greece should try to become the first decarbonised society or climate-neutral economy in Europe. Energy savings and renewable energy using the wind and the sun should become the top priority. Cars using combustion technology should step by step be forbidden until 2025. Efficient loading infrastructure must be provided in all homes and offices, traditional gasoline stations, and public buildings. As the first decarbonised society, Greece could improve and export clean technologies to neighbouring countries in the Black Sea region, the Western Balkans, and North Africa.

Cutting debt in three stages

In the last decade, Greece has made an ambitious switch toward fiscal stability. The fiscal balance had yielded a surplus before the Covid-19 pandemic, even if this is not enough to reduce the high debt to a significant degree. Moreover, Covid-19 presents another very big challenge. The most important driver of a late recovery, tourism, has suffered considerably. Whether foreign tourists will be able to travel to Southern Europe in the winter of 2022 remains open. Many new establishments will not survive without large support. The burden of refugees not allowed to travel towards richer countries like Austria or Germany and, at the same time, not able to be integrated into stagnant economies will be felt. Finally, there is the danger that Covid-19 will break out in refugee camps and that hospitals and emergency units will be overcrowded. The new credit and support facilities provided by the EU in April 2021 will mitigate some problems, but Greek debt will rise again, and this cannot be tackled by even more austerity.

Debt should be cut if Greece develops a vision and sticks to it. This could be done in three stages: one third should be cut directly through decisions made by the EU and its member states, another third should be paid back but at a very low interest rate, subsidised by institutions connected with the EIB, and a final third should be handled through the repatriation of Greek capital currently stored at foreign banks. Such a plan is now more pressing than before the health crisis, and the EU must cut Greece's debt.

A new narrative challenged by Covid-19

The new President of the European Commission has realised that Europe needs a new narrative, which will streamline the needed reforms into a unifying concept. Ursula von der Leyen has chosen the vision of a

"Green Deal", in which Europe takes the lead in fighting climate change and becomes the first major region in the world achieving climate neutrality until 2050. The European Green Deal should be accompanied by a Social Europe that leaves no person or region behind. One of the proposals included is to raise the minimum wages in member states. The Green Deal, as well as a Social Europe, should be incorporated into a strategy aiming at a larger role for the EU in the world, made possible by a "Geopolitical Commission". In general, Ursula von der Leyen encourages the EU to "strive for more", and this could mobilise resources, enthusiasm, and a new self-awareness among countries and citizens.

The new narrative is welcomed by the member states. However, the proof of the pudding will be in its operationalisation, and proceeding in small steps. The new strategy requires money and commitment at the European as well as the national level, the engagement of experts, investment, and the use of radical new technologies. The financial requirement is estimated to amount to one trillion euro up to 2030, which amounts to 100 billion euro per annum. This sounds like a lot, but must be compared to the money spent for subsidies in fossil energy and those for large agricultural units, plus expenditures for inward-oriented military systems and the purchase of weapons and military aircrafts (in some countries mainly used for airshows). Tax avoidance due to tax loopholes and evasion by internet platforms and multinational conglomerates could be stopped, or an overdue tax on short-run financial speculation could be installed. All this would mobilise more than the necessary 100 billion euro per year. Knowing that Europe is currently suffering an investment trough and that the leader in fighting climate change will have the advantage (while the laggard will have the burden), this investment is, indeed, feasible and profitable, as the rewards are higher than the costs.

However, we must emphasise that this extra spending should not take place on top of current public expenditures. Taxes and public commitments are already very high in Europe. If we aggregate the national budgets plus that of the EU (including its leveraging by external funds), more than half of the economic output is spent by the public sector. The all-important task is to cut unproductive public expenditures for the 27 national bureaucracies. These comprise state, regional, and community budgets, often blown up by overlapping competencies. Since tasks have been shifted to the European level, costs at the national level should decrease. Old regulations should be substituted, and not complemented, by European rules. The costs and time needed for starting new firms should be reduced, while public sector management and learning from the best performers should be made obligatory. The overall public expenditures (European plus national) should not increase, but rather decrease in the region with the highest taxation and the tightest regulations of the world.

The need to complement the Green Deal with cost-cutting is becoming ever more evident due to the Covid-19 health crisis. The member states and the European Commission have reacted faster than during the financial crisis by starting large expansionary programs, amounting again to additional expenditures of 750 billion euro. Since these funds should be mobilised within the next 1-3 years, this is per annum more than the amount planned for the Green Deal. This is positive and great. However, the question arises as to whether this necessity will substitute, or add to, the expenses for the Green Deal. The expenses for Covid-19 definitely cannot be made in addition to the Green Deal, if the Green Deal must be financed on top of current expenditures. Even creative tricks can only be applied once.

The problem, therefore, lies in combining long-term prudence with short-term crisis mitigation and investment into climate neutrality. This is a tough requirement, but it is not impossible since the problems of climate change, the spread of diseases, and social distress are more interrelated than we realise. Moreover, an optimist might believe that with red ink for past privileges, Europe could raise the money needed for climate and Covid-19 consequences without overburdening taxpayers and the economy later.

Closely connected problems call for systemic answers

There exists no empirical evidence so far on the degree to which the new health crises, the problems of social inequality, and climate impairments (affected by pollution) are connected. However, there is evidence that there exist feedbacks and cross effects at the personal, as well as societal, level. This is first and foremost a problem, but on the other hand, also offers a chance to look for solutions that support each other and limit the overall cost of fighting climate change, inequality, and the negative consequences of Covid-19.

Interrelated causes

It is proven that inequality decreases life expectancy and impairs health. If health problems arise, whether from smoking, obesity, or infection, poor people and the less educated do not tend to see a doctor, do not restrict smoking or drinking nor do they seek alternative health-improving measures such as exercise or yoga. Therefore, pulmonary diseases, obesity, and heart deficiencies are more likely to affect individuals with lower income. Past health problems —even if treated— are known to relate to the severity and death toll of Covid-19.

There is also evidence that pollution reduces life expectancy, with the extreme conclusion that the death toll due to air pollution is higher than that of traffic casualties. Since smog and air particles are heavier in large cities (and the crowded districts within them), this is another bridge between poverty, health problems, and the likelihood of being impaired by Covid-19.

Poor people live in districts with lower air quality or along high-traffic roads and intra-city highways. They have fewer parks or woods nearby and take fewer vacations. They go to work even when they are sick, fearing to lose their jobs, and informal contracts tend not to offer paid leaves for illness. Poor people must sometimes enter short-term contracts or look for daily opportunities.

They also necessarily crowd together in small flats, and therefore have close personal contacts and little private space, in addition to seldom possessing a separate working desk or laptop. It is more difficult to keep social distance, so the probability of infection, as well as the likelihood of propagating infection, is larger. Migrants and homeless people are subject to all the aforementioned problems.

Searching for synergies

Emissions, the size and power of cars, waste and garbage increase with income and affluence. On the other hand, higher financial leverage enables to switch to more sustainable consumption. Houses can be insulated, energy systems can be changed from fossil to alternative sources, and photovoltaics can be added. Electric cars, with their high purchasing price, can be bought and reloaded in a private, one-family house more easily than in big houses with many small flats. Enabling a similar switch for poorer households requires substantial incentives. Pricing emissions and taxing gasoline or diesel cars must be combined with a tax bonus for low incomes. The latter must not be too small, given the higher personal discount rate and status quo bias of low-income earners and older people.

Since the under-privileged suffer over-proportionately from pollution, poor people would profit from the Green Deal through better health, improved living conditions, and less exposure to smog and particles. Emissions are over-proportionally caused by the affluent strata, and taxes lower than the negative external effects of large cars or untaxed kerosene for air traffic are socially and environmentally unjustified. The Green Deal would mitigate this problem, but must respect the distributional consequences mentioned above.

Covid-19 increases inequality and presents a different burden for different groups. People with higher education and incomes have better opportunities to continue working from home and their children have laptops, while the children of low-income earners or migrants may lose contact with their teachers. High-income people are more experienced in the use of digital deliveries and internet services, as well as in making use of digital problem-solving, including guidance in case of upcoming health problems. Staying at home is more convenient, and first steps outside in crowded hardware stores or supermarkets are less needed due to digital deliveries. Public traffic is used less frequently, and teleworking will be possible at least on some weekdays. Less crowding was already the case at the time when the infectious disease was not yet known so that the infection rate could be income-dependent: higher for the less privileged.

No evidence is available on this, with the exception that in the US the African-American population is infected to a greater extent and has a higher death toll (Hermann 2020; Richter 2020). Rather marginal contrary evidence shows that the virus has spread specifically in tourist areas in western Austria, in which high-income people sought sport and entertainment. Racial prejudices came up as European firms announced they would test vaccines in Africa first, and as agencies reported that African-Chinese people had been forced to be tested to a higher degree, and had also been forced to leave their homes in Guangzhou (Economist 2020).

Conditioning crisis support on investment in the future

If we look at how measures to limit climate change and inequality could be combined with the large stimulus programmes due to Covid-19, we could think of making the application of firms' emergency support credits or short-time work for many employees conditional on their offer to support retraining or upgrading of their workforce skills. Firms could be incentivised to offer laptops or internet training to the employees they send into short-time work or temporary layoffs.

Firms that suffer from the crisis and apply for public subsidies should supply a programme in which they define steps towards becoming climate-neutral, saving energy and reducing emissions, precisely at a time in which demand is weak. If some of these programmes start during the crisis, which may be even easier since offices are empty, this could boost demand when it will be most needed.

We know today, with hindsight, that subsidies for firms as well as individuals during the financial crisis supported investment in fossil energy, e.g. due to the scrapping of old cars or the buying of new diesel or petrol cars (Koundouri 2020). This time, subsidies for firms, as well as income substitutes for individuals, should be conditional upon climate compatibility or upgrading of qualifications.

A quick start for investment leading to decarbonisation could support employment as well as climate neutrality. Incentives for better insulation or a change in heating systems will have double benefits if we also support households with low income; we may even get a triple benefit: higher employment, lower emissions, and stronger support for the underprivileged. If these three goals are targeted simultaneously, the short-run budgetary cost will be much smaller.

A stronger and larger Europe may shape globalisation

We have carved out crossroads. Europe could stay small and unable to shape globalisation and climate policy. In this case, it would suffer from low dynamics, high and rising inequality, and further inroads from the populist call for a return to past national policies. Alternatively, Europe could become larger, stronger, and better connected with neighbours to the East and the South outside geographical Europe, and could become a role model for a rich welfare- and choice-providing society.

The new President of the European Commission proposed the more ambitious road of the two. Europe should "strive for more" and play a geopolitical role, an especially important statement considering that, at that time, the US was retreating from multinationalism and human rights, as well as the Climate Treaty, and eventually also from the International Monetary Fund (IMF), the World Bank, and the World Health Organisation

(WHO). China is on its way to becoming the largest economic power, with Sino-centric ambitions, as well as low environmental concerns in its external investment. Nevertheless, it is still ruled by one party and rejects Western democratic rules of power-sharing. It defies individual as well as minority rights and remains open to racial discrimination. In the non-European neighbourhood, new hegemonies like Russia, Turkey or Iran want to restore their former territorial authority and perhaps also borders, thereby destabilising the Western Balkans and North Africa.

The proactive European strategy requires governance reforms within the EU, a stronger European Parliament, fewer unanimity requirements in the Council, and a better combination of top-down and bottom-up policies. Europe has to accelerate memberships for the countries of the Western Balkans, which are lured by Russian politicians and Chinese investment. The European Green Deal is a narrative that demands huge investment and coordinated regulatory rules, and that has to be based on new technology and the redirecting of technical progress from primarily saving labour to saving energy and resources. Social Europe needs strategies for deindustrialising regions, which lose a large part of their young population through emigration to Western countries. Europe needs immigration due to its ageing population, but immigrants also have to be welcomed, integrated and steered into regions where their qualifications are needed the most and where they are welcomed.

The Covid-19 crisis must not reduce investments in decarbonisation or the quest for an empowering Social Europe. This danger exists, given the huge amount of money needed, and fortunately mobilised, to limit the economic crisis following the pandemic. Measures to fight the economic consequences of the health crisis have to be combined with the instruments needed to fight climate change and reduce inequality. Education, training and innovation can, at the same time, reduce economic volatility, the unemployment rate, and the spread of incomes. If expenditures are raised under a silo mentality, the costs of fighting climate change plus those for mitigating the economic downturn would become too high. And it is all-important that new spending does not happen on top of the current large expenditures, specifically in countries with a large debt. Counterproductive and welfare-reducing expenditures have to be curbed, whether they are subsidies for fossil energy or for large-scale, heavy fertilising and polluting agriculture, for expensive inward-oriented military systems, and the existing quadruple bureaucracy. The Multiannual Financial Framework (EU budget for 2021-27) must follow new priorities and the country-specific recommendations. Furthermore, a reformed European Semester should monitor ambitious cuts in national expenditures for past priorities and special interests.

Greece and other Southern European countries have suffered a big blow after the financial crisis, due to their resistance to structural change, high debt, low innovation, and lack of practical training. The game changers outlined in this chapter include ensuring that young people and women play a stronger role in societies dominated by old boys' networks. A specific chance for Southern Europe would be to switch to solar and wind energy more quickly than other regions less endowed with sun and wind energy. Greece could also act as a bridge towards Africa and Asia, which are both fast-growing regions in its neighbourhood. Africa needs new technologies and strategies to fight desertification and to promote peace and high growth for its booming population.

Europe has to offer the best social, economic, and ecological model providing more freedom and choices to its citizens than the US or the Chinese model. It can become stronger and larger, not necessarily just through membership, but through partnerships and mutual learning. This may seem like a long way, but it is worthwhile.

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