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**‘Things have to change’:  
elite priorities vs. household  
priorities in the EU’s recovery  
strategy and institutions**

*Luca Calafati, Colin Haslam, Sukhdev Johal,  
Karel Williams*

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<sup>1</sup> Author contact details: Karel Williams ([williams.karel@hotmail.com](mailto:williams.karel@hotmail.com)) or Colin Haslam ([haslamcolin4@gmail.com](mailto:haslamcolin4@gmail.com)).

## ‘Things have to change’: elite priorities vs. household priorities in the EU’s recovery strategy and institutions

### Overview

*‘Se vogliamo che tutto rimanga come e’, bisogna che tutto cambi’/ ‘If we want everything to stay the same, everything has to change’* Tancredi Falconeri

In a period of turmoil, all agree that ‘things have to change’ in the EU but the question is, for what purpose. Is it to be technocratic, centrist change which aims to manage transition to reproduce the existing politico-economic order of inequalities, or radical, activist change that reforms that order by improving liveability for ordinary households?

#### The EU economic framing of ‘making the economy work again’

The Next Generation EU recovery strategy and the actions of EU institutions like the European Investment Bank (EIB) reveal the elite priority that everything has to change so that everything can stay the same. Hence the preoccupation with innovative green technologies, big infrastructural investments, and industry/ firm competitiveness. These supply-side measures promise to keep economic growth going, with an implied trickle down of green jobs etc., to prop up the economic status quo in a shaky political order. This is a technocratic and centrist agenda for change to sustain the status quo by making the economy work again.

This restatement of elite conservatism in a time of turmoil and revolution aligns EU elites with Tancredi, the opportunistic young Sicilian aristocrat in *The Leopard*. The Risorgimento culminates in 1861 with the consolidation of the independent states of the Italian peninsula into a single nation state as a monarchy (not a republic). As the old order is toppling, Tancredi joins Garibaldi’s redshirt insurgents who support the monarchist cause (not the republic and land redistribution); he then marries for money into trade before pursuing a career in the new polity where he becomes a Deputy. These moves secure the perennial conservative objectives of elite statecraft, which are continuity of controlling influence in the polity and management of inevitable change in the economy.

The EU has very different technocratic and centrist elites but EU National Plans for recovery, perform the same elite statecraft because the *change for status quo* approach underpins top-down, big national projects for low carbon energy sources and digitalisation. So, the Germans will carry on making the cars which the rest of Europe drives, but they will be battery powered. The French will achieve competitiveness in new digital and green industries, which will underpin their role

as international player. Italy will finally connect North and South and complete the unification project. The hope is that across the EU economic growth of marketable output with rising real wages will resume and displace the internal political threat of disruptive 'populism' as Europe recreates external relations with the global south around new raw materials.

### The alternative foundational framing of 'making the household work again'

The *change for meaningful reform* alternative is about meeting the priorities of ordinary households after the shock of a cost-of-living crisis coming on top of a decline in the long-term economic growth rate that cannot be reversed by orthodox policies. The alternative priority is direct action for improved foundational liveability which rebuilds the three pillars of liveability at household level: first, residual income after essentials; second, basic services like health, public transport, education, and care; plus, third, social infrastructure from parks to community centres. This would be changed to deliver improvement by making the household work again.

This is urgently necessary in the current cost of living crisis. All across Europe the energy price spike and food price inflation have squeezed household residual incomes: the cost of essentials - housing, utilities, food and transport - have increased their share of disposable income by a significant amount. At the same time, basic services and social infrastructure are increasingly underfunded through inadequate tax revenues. If we are to stay within planetary boundaries, Europe needs not just electric cars but fewer car miles, not just less meat but smaller ruminant herds and all the while must address issues about biodiversity and ecosystem regeneration.

The nature and climate emergency requires large changes in lifestyle and industrial structure which, under current European conditions, meet political resistance because change adds cost or disruption without compensation. A meaningful improvement in household liveability is the quid pro quo for getting popular acceptance of the necessary large changes in lifestyle and industrial structure that will otherwise provoke backlash. This is particularly important because, whatever the rhetoric about 'just transition', the process of job destruction and creation in any green transition will be uneven with an uncertain net outcome in terms of job quantity and quality.

More subtly, in terms of government and governance, this is an opportunity to break with technocracy and top-down setting of priorities. Because, in the politics of improvement, the role of top-down action includes the support of bottom-up initiatives which rebuild the capacity of lower tiers of government, including municipalities and regions. This would mean local communities can have much greater influence and control over the provision of foundational goods like housing, public transport, electricity, food and health.

### The choice and the issue about the politics of improvement

The choice is thus not just about elite and household priorities but between two models of development. The argument of this short report is that the EU's elite driven development model cannot deliver on its promise of economic growth, let alone achieve the outcomes of

environmental sustainability and collective wellbeing which everybody wants. However, these sustainability and wellbeing outcomes can be delivered through the alternative foundational development model which targets improvements in household liveability.

The political complication is that it will not be easy to change elite priorities when they are articulated as national projects and legitimated by mainstream economics. Therefore, the issue is likely to be how to find the space to start a process of making improvements in liveability within a framework that radicals and insurgents do not choose and cannot easily change.

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## The EU's economic framing

### EU investment programmes and the European Investment Bank (EIB)

The EU's technocratic and centrist framing of economic ends and means can be read in a series of EU investment programmes over the period 2014- 2023. Successive programmes responded initially to faltering growth rates after the 2008 Great Financial Crisis. Then to subsequent crises, from the rolling eurozone financial crisis of the 2010s to the Covid pandemic of 2021-2. All this was against a background of increasing awareness, first of ecological crisis and now of geopolitical crisis, especially about the tech race with China and the USA. Here below is an overview of the main programmes.

- ✓ Investment Plan for Europe/ Juncker Plan of 2014 aimed to boost investment (mainly in transport infrastructure) by converting existing EU grants into financial instruments (such as loans and guarantees) implemented by the EIB and leveraging in private investment.<sup>2</sup> The EIB claimed that it had in 2015-2020 mobilised €500 billion of additional investment.<sup>3</sup>
- ✓ InvestEU in 2019 inflected the growth objective towards the 'green and digital transitions' with four priorities including 'sustainable infrastructure' and 'research, innovation and digitisation'. Using instruments like guarantees for economically viable projects, just 11% of guarantees were to be for 'social investment and skills', with skills taking most of that.<sup>4</sup>
- ✓ NextGenerationEU was launched in 2021 to help member states recover from the economic consequences of pandemic lockdowns<sup>5</sup>. The EU borrowed money on financial markets and created NextGenerationEU, mainly consisting of a fund of more than €700 billion, from which each member state received a part consisting of grants and loans. The

<sup>2</sup> <https://documents1.worldbank.org/curated/en/536331590472160307/pdf/Investment-Plan-for-Europe-The-Juncker-Plan.pdf>

<sup>3</sup> <https://www.eib.org/en/press/all/2020-176-investment-plan-for-europe-exceeds-eur500-billion-investment-target-ahead-of-time>

<sup>4</sup> <https://euraxess.ec.europa.eu/worldwide/lac/questions-and-answers-about-investeu-programme>

<sup>5</sup> [https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu\\_en](https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu_en)

EU disburses funds by approving national plans which have quotas for climate and digitalisation investments by public and private applicants.

- ✓ The EU Net-zero Industry Act, proposed in 2023, performs a green tech race with US and China. The act aims to support manufacturing of green technologies with potential for rapid scale up, thereby boosting the competitiveness of the EU's 'clean tech sector'.<sup>6</sup>

The concern throughout is with investable supply-side projects. Initially, the focus was on investment in transport infrastructure to boost growth, then by inflection the priority shifted to investment in clean and digital tech for green growth in a period of climate and digital transition. As a side-order throughout the period, investment in workforce skills figures recurrently as does investment in SMEs, because both contribute to the ideal of a restructured growth economy. Except for investment in building retrofit, any kind of social investment is completely marginalised.

The EIB is intricated in all of this as the EU's development bank which provides long term loans (for public and private sectors), equity and guarantees to encourage private investment. Since the Juncker Plan, the EIB's role has been to screen investable projects and use financial instruments to make EU money go further. For example, the EIB manages 75% of EU investment guarantees under the Juncker plan and its successors.

- ✓ The ends/objectives of the EIB in its 2022 Annual Report are 4 public policy goals: 'competitiveness and growth'; 'innovation'; 'social impact, skills and human capital'; 'sustainability and green transformation'.
- ✓ The means/instrument is support for single investable projects (often by private firms and funds) which can be profitable with public funds and guarantees. Supply-side projects mitigating climate change and environmental crisis are now claimed to account for half its investments.
- ✓ The unifying objective is faster economic growth, first updated to become green growth and now with 'resilience' added in the EIB 2022-3 report.

### NextGenerationEU

NextGenerationEU is a new programme instituted to stimulate recovery and transition over the next decade. It builds on previous EU programmes in that it promotes development via project investment and is of strategic importance because it is large scale and provides a framework/guidance for ordinary national and EU budgets. NextGenerationEU is hence worth describing in detail because it shows us where the EU is at in the first half of the 2020s.

- After a decade of recession/stagnation and limited recovery, worsened by the Covid-19 lockdowns, the EU decided to integrate its €1100 billion Structural Budget for the period 2021-2027 with a substantial extraordinary budget to support the socio-economic recovery of the Union. NextGenerationEU adopted in December 2020 has an extraordinary budget

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<sup>6</sup> [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747903/EPRS\\_BRI\(2023\)747903\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747903/EPRS_BRI(2023)747903_EN.pdf)

of €750 billion, which will be distributed to member states as €360 billion in loans and €390 billion in grants over 7 years.<sup>7</sup>

- Unlike the structural budget which comes from the contribution of member states, the extraordinary budget of NextGenerationEU comes from the financial markets in the form of common debt.<sup>8</sup> The funds are distributed to member states according to National Recovery and Resilience Plans, which are prepared by national governments within EU guidelines and require EU approval.
- The EU guidelines for national plans are a broad mix of old and new. National governments were asked to set out packages of projects in three main areas: green transition, digital transition and economic and social transition.<sup>9</sup> The plans should allocate at least 37% to green transition measures and a further 20% to digital transition.<sup>10</sup>
- Guidelines are broad and open to interpretation so that the Union has limited control on how operationally the money is spent by each member state. A 2022 update reinforced the emphasis on energy by underlining the new importance of ending dependence on Russian fossil fuels.

### Critical appraisal of NextGenerationEU

- The National Resilience and Recovery Plans<sup>11</sup> produced by national governments under NextGenerationEU do not suggest any common intention by member states to change the development model of the Union. The plans are traditionally technocratic in that they assume that economic growth (with social and territorial cohesion) is the superordinate objective. The novelty is the more environmentally aware language, and the new priority of digital and green transition which requires investment to accelerate the shift towards clean and digital technologies. These technologies are supposedly desirable in themselves and will make EU industries more competitive against China and the US, and more resilient in the face of supply chain shocks.
- Implicitly, faster economic growth is to be restored in Europe on the basis of a new green and digital technological base. The Next Generation language is now about recovery and transition, but the continuing centrality of economic growth in the programme is demonstrated by the fact that the only strategic objectives properly quantified in the National Plans are the macro-economic objectives of increasing employment, GDP and productivity. No other strategic objectives of the national plans around decarbonisation, social cohesion or digitalisation have been analysed and quantified in a similar fashion.<sup>12</sup>

<sup>7</sup> <https://op.europa.eu/en/publication-detail/-/publication/d3e77637-a963-11eb-9585-01aa75ed71a1/language-en>

<sup>8</sup> <https://op.europa.eu/en/publication-detail/-/publication/d3e77637-a963-11eb-9585-01aa75ed71a1/language-en>

<sup>9</sup> These three broad categories are further split into a number of sub-areas (called missions) with minor differences in labelling between countries. These sub-areas broadly include 1) climate policy and energy transition; 2) the digitalisation of economy and infrastructures; 3) competitiveness and inclusive growth; 4) social and territorial cohesion; 5) health and resilience; 6) public administration.

<sup>10</sup> <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/next-generation-eu.html>

<sup>11</sup> For an overview of the content of the National Recovery and Resilience Plans see:

[https://commission.europa.eu/business-economy-euro/economic-recovery/european-semester/country-pages\\_en](https://commission.europa.eu/business-economy-euro/economic-recovery/european-semester/country-pages_en)

<sup>12</sup> See for instance the German National Recovery and Resilience Plan:

[https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press\\_Room/Publications/Brochures/2021-01-](https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/Brochures/2021-01-)

- Within this paradigm, 'social cohesion' remains a question of redistribution through the main EU budget after economic growth is attained and 5G is everywhere available. The question of environmental sustainability is reduced to an investment-led technical shift. This shift involves switching to green energy sources on the supply-side and switching to more energy-efficient transport, industrial processes and buildings on the demand-side.
- National plans are diverse but include two recurrent defaults which act as common denominators. Across many different national plans (a) climate change trumps biodiversity because it is relatively easy to package renewable energy or more energy efficient buildings into investable projects, but hard to package soil restoration and biodiversity into investable projects. Equally, in many different plans (b) there is a preference for 'the big project': for example, both Germany and France are planning to spend about €7 billion each on developing green hydrogen.<sup>13</sup>
- National plans reflect metropolitan elite priorities and understandings of their country's strength/ weaknesses in the European and international system of competitiveness. Hence French elites under Macron are insecure about firm and industry competitiveness and the French plan allocates €34 billion to improving competitiveness by investing in new technologies, while the €36 billion allocated to 'social cohesion' was largely to be spent on vocational training to upgrade the workforce.<sup>14</sup> The Germans with successful firms and industries are understandably more concerned with transitioning their base, and so the €50 billion allocated for reducing their national carbon footprint was also to support development of new low-carbon industries.<sup>15</sup> In Spain, coming from behind, €21 of €32 billion for public private partnerships is allocated to catch up on digitalization and renewable energy.<sup>16</sup> Italy recognises the continuing divergence between north and south so that €32 billion is allocated to developing the transport infrastructure with a special focus on the south of Italy and improving regional connectedness.<sup>17</sup>
- In all this, 'the social' is low priority as an object of expenditure and often constructed through a frame of technical innovation and investment in skills (apparently necessary to remove the obstacles to growth). The Italian National Plan allocates a substantial sum of €25 billion to 'increasing the supply of childcare, facilities, reforming the teaching profession, improving active labour market policies as well as women's and youth participation in the labour market and reinforcing vocational training by investing in the apprenticeship system and such like'.<sup>18</sup> The Spanish National Plan budgets €5.1 billion for upskilling the labour force with emphasis on young people, vocational training and

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[13-german-recovery-and-resilience-plan.html](#); the Italian National Recovery and Resilience Plan: <https://www.governo.it/sites/governo.it/files/PNRR.pdf> and the French National Recovery and Resilience Plan: [https://www.economie.gouv.fr/files/files/directions\\_services/plan-de-relance/PNRR%20Francais.pdf?v=1638203849](https://www.economie.gouv.fr/files/files/directions_services/plan-de-relance/PNRR%20Francais.pdf?v=1638203849)

<sup>13</sup> <https://www.wri.org/insights/germanys-covid-19-stimulus-prioritizes-low-carbon-investments>  
<https://www.tresor.economie.gouv.fr/Articles/53c71f49-efc7-4bd0-ac6e-e9138efc0656/files/90fd94b5-77be-4d22-b765-c3f88afcf17d>

<sup>14</sup> See Choose France report *Shaping France as the Most Competitive, Innovative and Carbon-Neutral Economy*: <https://www.tresor.economie.gouv.fr/Articles/53c71f49-efc7-4bd0-ac6e-e9138efc0656/files/90fd94b5-77be-4d22-b765-c3f88afcf17d>

<sup>15</sup> <https://www.wri.org/insights/germanys-covid-19-stimulus-prioritizes-low-carbon-investments>

<sup>16</sup> [https://odg.cat/wp-content/uploads/2022/11/PERTE-Ecofeminist\\_analysis.pdf](https://odg.cat/wp-content/uploads/2022/11/PERTE-Ecofeminist_analysis.pdf)

<sup>17</sup> [https://commission.europa.eu/system/files/2021-06/italy-recovery-resilience-factsheet\\_en.pdf](https://commission.europa.eu/system/files/2021-06/italy-recovery-resilience-factsheet_en.pdf)

<sup>18</sup> [https://commission.europa.eu/system/files/2021-06/italy-recovery-resilience-factsheet\\_en.pdf](https://commission.europa.eu/system/files/2021-06/italy-recovery-resilience-factsheet_en.pdf)



digitalisation,<sup>19</sup> while the Belgian National Plan devises an investment of €480 million for ‘education 2.0’ which focuses on ‘financing a more inclusive and future-proof education system across communities with improved digital and STEM (Science, Technology, Engineering, and Math) skills of pupils and students and access to digital tools and technologies’.<sup>20</sup>

- This squeezes out a whole series of demand-side social policies in housing, care services and social infrastructure meeting household needs which are fundamental to liveability. Housing policies figure so far as residential buildings can be made more energy efficient: the Belgian National plan allocates €1 billion to ‘energy-efficient renovation of residential and public buildings’; the French plan allocates €5.8 billion for ‘financing a large-scale renovation programme to increase the energy efficiency of buildings’; the Italian National Plan allocates €12.1 billion to the ‘energy efficiency in residential buildings’; and the German plan €2.5 billion for the same aim. There is no mention of the construction of new social housing nor the control or subsidy of private rents, because such matters are entirely devolved to national decision and budgets.
- When it comes to healthcare, this is subsumed into technical change and digitalisation, so the challenge is modernisation of the hospital system and innovation in the health industry. In the EU’s own account, health is about protection against ‘health threats’ which means research and innovation in vaccines and treatments. EU hospitals should have ‘better access to new technologies and medical supplies’ and Europe should have better trained health care professionals’.<sup>21</sup> This is translated into the French National Plan with a €2.5 billion investment for ‘renovating hospitals and healthcare facilities, building outpatient facilities, and modernising medical infrastructure and equipment’;<sup>22</sup> and in the German National Plan into a €3 billion allocation for renovating hospitals and healthcare facilities, building outpatient facilities, and modernising medical infrastructure and equipment’.<sup>23</sup> In contrast, public health in the sense of diet and lifestyle barely figures despite the obesity crisis and massive physical and psychological health inequalities between social groups within countries. For example, in the Spanish and other national plans more is spent on hydrogen than on public health.
- The whole idea of ‘recovery’ (as updated in 2023) is curiously detached from the demand-side difficulties of low- and middle-income households. All across Europe, these households are struggling to afford the basics of housing, utilities, food and transport in the current cost-of-living crisis against a decade long background of rising housing prices<sup>24</sup> and stagnant wages.<sup>25</sup> After the start of the Ukraine War and the spike in energy prices, the EU has endorsed supply-side national missions of ending short term dependence on fossil fuels, and that reinforces the long run pursuit of cheap, green energy. But demand-side measures to deal with ‘the cost-of-living crisis’ are left entirely to national governments who must

<sup>19</sup> [https://commission.europa.eu/system/files/2021-06/spain-recovery-resilience-factsheet\\_en.pdf](https://commission.europa.eu/system/files/2021-06/spain-recovery-resilience-factsheet_en.pdf)

<sup>20</sup> [https://commission.europa.eu/system/files/2021-06/belgium-recovery-resilience-factsheet\\_en.pdf](https://commission.europa.eu/system/files/2021-06/belgium-recovery-resilience-factsheet_en.pdf)

<sup>21</sup> [https://next-generation-eu.europa.eu/index\\_en](https://next-generation-eu.europa.eu/index_en)

<sup>22</sup> [https://commission.europa.eu/system/files/2021-06/france-recovery-resilience-factsheet\\_en.pdf](https://commission.europa.eu/system/files/2021-06/france-recovery-resilience-factsheet_en.pdf)

<sup>23</sup> [https://commission.europa.eu/system/files/2021-06/germany-recovery-resilience-factsheet\\_en.pdf](https://commission.europa.eu/system/files/2021-06/germany-recovery-resilience-factsheet_en.pdf)

<sup>24</sup> <https://www.investigate-europe.eu/en/2022/house-prices-and-rents-rising-across-europe/>

<sup>25</sup> <https://www.ft.com/content/2c555bc7-4285-44bb-88cb-c2489e1f8304>

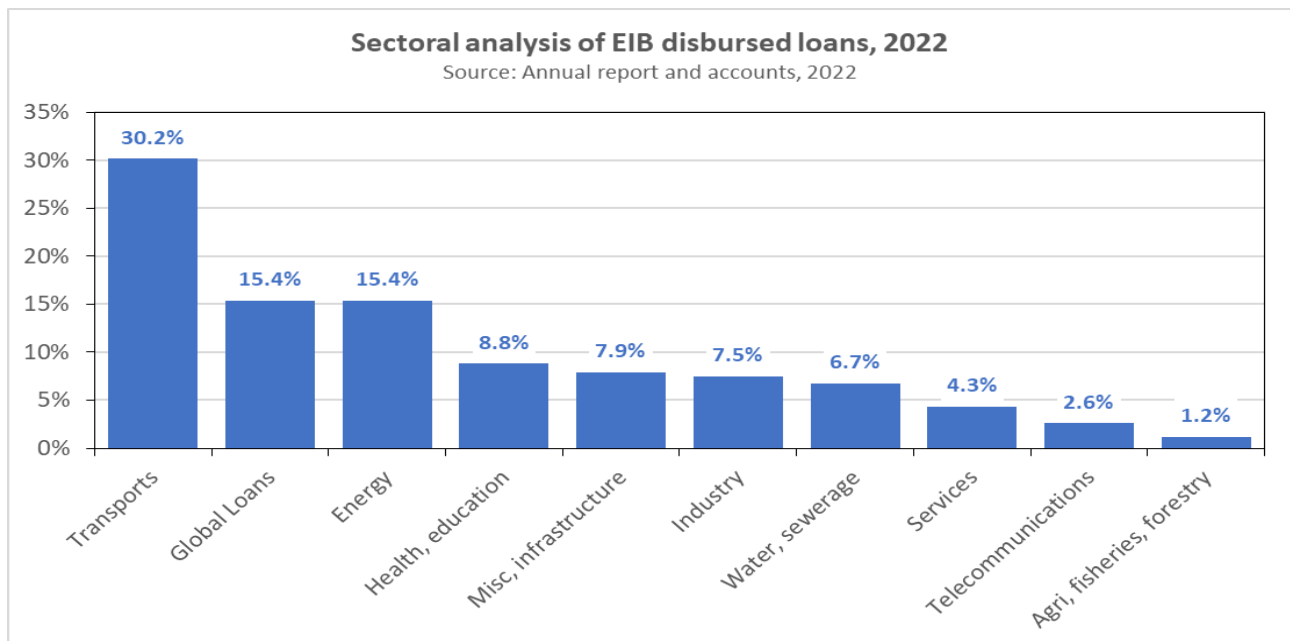
also deal with any political protest and reaction to this crisis. In the elite technocratic world of EU strategies and statecraft, it is as though the Gilets Jaunes of 2018 had never existed.

### The EIB and its practice

The EIB, as the EU's development Bank, is not an independent actor but a faithful servant which formally acts as an adjunct to new and changing EU priorities: for example, in 2019 it declared itself a 'climate bank'. But it also has its own conservative bankerly agenda about avoiding losses and generating surpluses which buttress its balance sheet.<sup>26</sup> Surpluses are the precondition of the EIB's autonomy and financing capability, resting on its secure triple A credit rating which allows the Bank to borrow more cheaply than most member states. The EIB has an explicit public mission to be different but (as we shall see) its results are not so different from those of a large European private sector bank on some key financial metrics and outcomes. Tancredi in our time would perhaps be a senior executive at the EIB who is comfortable with this duality and who joined the EIB after graduating from Bocconi and taking an MBA at Wharton in the 2000s.

EU priorities are reflected in the EIB loan book, where more than 80% of loans have been made within the EU. As figure 1 shows, 30% of loans are for transport projects which are the traditional EU 'make the economy work' infrastructural priority, and 15% are for energy projects which represent the EU's transition thinking about growth plus.

**Figure 1: Sectoral analysis of EIB distributed loans**



The EIB loan book splits roughly 40 v 60: (a) 40% publicly guaranteed loans where the guarantee is made by a government body and the recipient may be public or private; and (b) 60% private loans

<sup>26</sup> <https://www.govtran.eu/wp-content/uploads/2022/06/Mertens-Thiemann-EIB-chapter-for-GOVTRAN.pdf>

to banks and corporates. The criteria for lending are disclosed in various published EIB documents.<sup>27</sup>

- The private loans are made using the standard Net Present Value/ Discounted Cash flow criteria that any other private lender would adopt for project appraisal. Income and expenditure streams attached to projects are projected and then used to compute net cash flows which are discounted using the weighted average cost of capital (WACC) for the company. This adjusts for the time value of money as distant returns are more heavily discounted. The WACC is the average rate of return expected by shareholders and bond holders, weighted by the percentage of capital provided as equity and debt; this average will vary according to the risk profile of the borrower.
- In the case of publicly guaranteed loans, the private project appraisal criteria are relaxed. Multi-criteria analysis (MCA) helps the project because it can be used to boost estimated 'income' by adding in the non-cash value of imputed social benefits and environmental gains. And a social discount rate (SDR) is then employed to evaluate the NPV of net cash flows from invested capital. The EIB's SDR is relatively low, ranging from 3% to 5.5% in recent times. These concessions on publicly guaranteed loans effectively cost the EIB very little because the lending is very low risk, as the loans are generally covered by some form of guarantee against default provided by a public body like a central state or municipality.

In its own public pronouncements, the EIB makes much of its public mission of 'additionality' and claims to be 'offering financing conditions that cannot be provided by the market alone'.<sup>28</sup> This implies that, for example, through supplementary funding it allows the private sector to do what it would otherwise not do. The alternative view is that the EIB is, in a very prudent bankerly way, risk averse and concerned to avoid anything which might result in losses. Given the NPV criteria for private loans and the insistence on public sector guarantees, the EIB has few defaults and write-offs. In the 2010s, the EIB set aside reserves for just 0.1% of its loans and the *Financial Times*' profile of the EIB in 2019 concluded that the Bank had 'comprehensively mastered the art of dodging risk'.<sup>29</sup>

The prudence of EIB public bank lending practice is such that it is not surprising that its financial results on key operating ratios are not so different from those of large privately owned, mainly retail banks in the European mainstream. With assets of \$647 billion, the EIB is the 58<sup>th</sup> largest bank in the world while Société Générale is the 21<sup>st</sup> largest bank in the world with assets of \$1,655 billion. A difference in return on capital is predictable because, since the financial crisis,

<sup>27</sup> See:

- (a) The Economic Appraisal of Investment Projects at the EIB 2nd Edition, March 2023 [https://www.eib.org/attachments/lucalli/20220169\\_economic\\_appraisal\\_of\\_investment\\_projects\\_en.pdf](https://www.eib.org/attachments/lucalli/20220169_economic_appraisal_of_investment_projects_en.pdf)
- (b) Climate change adaptation and economics and investment decision making in the cities <https://advisory.eib.org/publications/attachments/climate-change-adaptation-and-economics-and-investment-decision-making-in-the-cities.pdf>
- (c) EIB Group Climate Bank Roadmap 2021-2025 – Position paper <https://www.eib.org/attachments/consultations/eib-group-climate-bank-roadmap-2021-2025-position-paper.pdf>

<sup>28</sup> <https://www.eib.org/en/projects/cycle/monitoring/aim.htm>

<sup>29</sup> <https://www.ft.com/content/940b71f2-a3c2-11e9-a282-2df48f366f7d?accessToken=zwAGASSPmU0YkdOUC3Hyo8IR6dOigi30jzVfQ.MEYCIQCMMUpt86W3OQq37g-JDCOe-Hx8W6iEoANjPXiLeW861wIhAMH9SiDsHYLvcRSvZpBK7L52I9zhzHTsR5iO1oeTD7Ga&sharetype=gift&token=d86eea8c-ef41-4792-8bb7-20e66d91751c>

shareholder value pressure has obliged privately owned banks to deliver higher returns on capital and target return on capital employed (ROCE) of 10%. And some difference in the two key operating ratios (return on assets and interest on customer loans) is only to be expected given the difference in activity mix. Société Générale has the expense of running a retail branch network as well as an adjunct corporate and investment banking business. It is then not surprising that EIB is able to achieve a higher rate of return on assets than Société Générale (0.46% vs 0.30%) from a lower rate of interest on customer loans (3.9% vs 5.0%). The remarkable point is how close the results are because the EIB is just another bank.

**Figure 2 EIB and Société Générale returns compared**

	Return on capital employed (ROCE)	Return on assets (ROA)	Interest rate on customer loans	Return on securities
European Investment Bank returns, 2022	3.1%	0.46%	3.9%	2.0%
Société Générale returns, 2022	6.2%	0.3%	5.0%	

### Overall verdict on EU programmes and EIB practice

The EU programmes and the EIB practice are technocratic and centrist because they propose mechanical supply-side fixes for a low growth economy. The rationale is a cake mix concept of the economy which assumes that if policy makers add the right kind of supply-side investment in projects, all will be well. The aim is a recovery of the past *trentes glorieuses* 1945-75 through a scaling of 21st century clean and digital innovation to solve all our current problems.

This is not just the problematic of the EU. This thinking aligns with business interests when they ask for a financial incentive to do good by the environment and save the planet; it also (and predictably) aligns with what consultants are promoting. Thus, McKinsey presents the IRENA evidence summarised in figure 3 to support its argument that ‘to reach net zero targets, a set of existing clean technologies will need to scale exponentially by 2050’. This problem definition comes along with McKinsey’s observation that ‘many green business leaders look to blended finance models with a mix of private capital and public or philanthropic funds’,<sup>30</sup> which obligingly makes room for the EIB.

The same preoccupation with ‘shiny, shiny’ new tech is reflected in EU regulatory plans for phasing out vice and achieving virtue tomorrow not today, for example, by banning sales of internal combustion engine cars (except for those running on e-fuels) by 2035.<sup>31</sup> This goes along with

<sup>30</sup> McKinsey, ‘Scaling green businesses’, 10 March 2023 <https://www.mckinsey.com/capabilities/sustainability/our-insights/scaling-green-businesses-next-moves-for-leaders>

<sup>31</sup> <https://www.autocar.co.uk/car-news/new-cars/ice-cars-may-continue-eu-after-2035-e-fuels-exemption>

rhetorical statements of longer-term aspiration and no clear plan for getting there. Thus, the European Green Deal of 2019 promised to ‘transform the EU into a fair and prosperous society with a modern, resource efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource consumption’.<sup>32</sup>

**Figure 3: The climate emergency presented as a problem about exponentially scaling existing clean technologies by 2050**

	(Actual)	(Projected)	(Limiting climate change to +1.5°C)	Increase or decrease required above current projected plans
	2018	2050	2050 (+1.5°C)	
Energy demand (EJ, TPES)	599	710	538	-24%
Fossil-fuel use (EJ TPES)	485	440	130	-70%
Energy-related CO <sub>2</sub> emissions (Gt)	34	33	9.5	-71%
Renewable share total energy (% , modern)	10.5%	25.0%	66.0%	164%
Energy intensity improvement rate (% per year)	1.8%	2.6%	3.2%	23%
Renewable share of electricity generation (%)	26.0%	55.0%	86.0%	56%
Electric cars (mill. Units)	7.9	627	1,109	77%
Heat pumps (mill. Units)	38	119	334	181%
Battery storage -static (Gw/hr)	30	3,400	9,000	165%
Battery storage EVs (GW/hr)	200	7,546	14,145	87%

**Source:** IRENA (2020), Global Renewables Outlook: Energy transformation 2050. (Edition: 2020), International Renewable Energy Agency <https://www.irena.org/publications/2020/Apr/Global-Renewables-Outlook-2020>

In all this, there are echoes of St Augustine’s prayer, ‘Lord, make me pure but not just yet’, which fits the agenda of Brussels industry lobbyists who accept the need for change but press for implementation to be postponed. Tancredi would surely approve of this tactic of procrastination. It avoids climate denial which is no longer environmentally credible by swerving sideways into climate do nothingism, which at least avoids extra costs and postpones awkward choices for the

<sup>32</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>

next few years. In this context, the EU's preoccupation with technical fixes and rhetorical aspirations is not a way of changing our dysfunctional relation with the planet, but a way of avoiding inconvenient truths while Europe carries on with its irresponsible lifestyles.

Certainly, there are many questions about the cause-and-effect relations that are assumed in the EU elite scenario where enough of the right investments in clean and digital technologies solve all our problems. In terms of outcomes, there are doubts about whether economic growth can/ will deliver more marketable output plus other desiderata like environmental responsibility and at the same time directly benefit households by generating higher wages.

- ✓ Can Europe have green growth? Most obviously, growth comes with trade-offs which are well documented in the case of emissions and resource extraction. So far, emissions are relatively not absolutely decoupled at a global level so that growth raises emissions less than was the case in the 1990s, but still increases the level of emissions.<sup>33</sup> High income countries (like the Nordic states) have a larger ecological footprint.<sup>34</sup> The upcoming EU Critical Raw Materials Act recognises the need to build 'secure and resilient supply chains' for raw materials like lithium but (apart from a nod towards recycling) completely ignores the need to reduce resource use, which is central to environmental responsibility. Given this evidence, it is doubtful whether any mainstream set of public policies can deliver growth *plus* environmental responsibility *plus* competitiveness *plus* resilience and security; and certain that the EU does not recognise the need for trade-offs. The growth objective was originally about marketable output measured by GDP. As it is loaded with 'growth-plus' objectives it becomes increasingly contradictory, incoherent and practically unrealisable.
- ✓ Even if everything works out in terms of the input/ output relation so that digital and clean tech investment does generate marketable output growth, the financial benefits for households through wages are mediated and indirect. It all depends on how the new sectors are organised and, crucially, also on the balance of power between capital and labour which has been changed by the retreat of private sector unionism in many European countries over the past 40 years. Productivity increases will not lead to higher wages if distribution works against labour and the gains are captured by capital. Higher gross wages in the long run means very little when, after Ukraine War and with inflation, households here and now have an immediate cost of living crisis about the limits of disposable and residual income.

In terms of process, the fundamental issue is that the EU buys into a flawed model of innovation which policy makers understand as the dissemination of high profile, transformative, technical economic innovations. Hence the support for building on early-stage innovation in areas like AI, life

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<sup>33</sup> Sources: Our World in Data for emissions data and World Bank national accounts data for GDP

<https://ourworldindata.org/grapher/annual-co2-emissions-per-country?tab=table>

<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD>

The argument is developed in L. Calafati et al (2023) *When Nothing Works*, pp.48-50

<sup>34</sup> Sources: OECD database [GDP per capita] and Global Footprint Network [Ecological footprint per capita].

<https://data.oecd.org/gdp/gross-domestic-product-gdp.htm> and <https://data.footprintnetwork.org/#/>

The argument is developed in L. Calafati et al (2023) *When Nothing Works*, pp.52-54.

sciences or space; or for sponsoring new tech in old industries, as when the EIB supports Northvolt lithium-ion battery factories in Sweden.<sup>35</sup>

- ✓ How people use technologies is not foregrounded and figures as an ex-post partially revealed problem. Thus, financial incentives often have perverse effects, as in the case of plug-in hybrid cars. All across Europe tax incentives encourage the purchase and use of plug-in hybrid cars which offer 25-45 miles of emission-free running when charged up. But users, who have pocketed the incentives, cannot be bothered to plug in the vehicles and therefore society does not realise the environmental benefits.<sup>36</sup>
- ✓ The reliance on shiny, shiny new tech (clean and digital) raises large issues around ineffectuality and risk. Zink's 'rebound effect'<sup>37</sup> is such that cavity wall insulation and cheaper warmth does not reduce gas energy consumption in the UK<sup>38</sup>. More broadly, the switch to green electricity and hydrogen as main energy sources is likely to create as many or more environmental problems as it solves. Cheap energy and climate change is likely to produce a massive rebound effect in energy use and resource consumption in mitigating systems, for example, through a huge increase in the installation and use of air conditioning in Southern Europe. While digital technologies bring us platform capitalism and AI, which are at the very least major challenges for regulators who struggle to catch up with innovation.
- ✓ There is another set of issues around whether shiny new tech (clean and digital) can diffuse prosperity by creating large numbers of well-paid new jobs to replace those it displaces through AI and other developments. The knowledge intensive sectors as currently defined by the EU employ less than 5% of the national workforce in economies where ill-paid service jobs have proliferated.<sup>39</sup> Knowledge-intensive districts like 'silicon fen' around Cambridge in the UK are characterised by sharp socio-economic inequalities so that this is a future that does not work for many residents.
- ✓ In any case the emphasis on de-risking investment in 'shiny, shiny' single projects (often private projects sweetened with public funds or guarantees) is not shorthand for acting in the public interest because there are limits on what can be packaged in a spreadsheet as an investable business model. So, climate change is addressed by all kinds of green investments (e.g., renewable energy projects) but nature emergencies barely figure at all. More narrowly, reducing carbon emissions from the business sector is not the same thing as driving down the household or residential sector carbon emissions where poorly insulated properties are only part of the problem.
- ✓ Loans and guarantees (public or private) go to those actors best able to put together a project case without any emphasis on building the capability of social actors to identify opportunities, deploy funds and manage projects. So, a large private corporate with state backing is well placed to win, and a South Italian local authority is set up to lose. And, of

<sup>35</sup> <https://northvolt.com/>

<sup>36</sup> ICCT (2022) Real world usage of plug-in hybrid vehicles in Europe <https://theicct.org/wp-content/uploads/2022/06/real-world-phev-use-jun22-1.pdf>

<sup>37</sup> Zink and Geyer (2017) 'Circular Economy Rebound', *Journal of Industrial Ecology*, pp.593-602.

<sup>38</sup> Penasco and Anadon (2023) 'Assessing the effectiveness of energy efficiency measures in the residential sector gas consumption through dynamic treatment effects: evidence from England and Wales', *Energy Economics*, 117. <https://www.sciencedirect.com/science/article/pii/S0140988322005643?via%3Dihub>

<sup>39</sup> L. Calafati et al (2023) *When Nothing Works*, p.59

course, everything is a matter of technocratic governance without meaningful democratic participation.

## The alternative foundational framing

Critique of the EU agenda and EIB practice is easy enough because change to maintain the status quo has self-evident limits. But what is the alternative agenda for the 21<sup>st</sup> century which corresponds to the radical mid-19<sup>th</sup> century options - like land reform and a republic with universal suffrage - which Tancredi rejected. In this context, it is useful to remember Tancredi and his political career in Rome as a Parliamentary deputy in the decades after 1861. For half a century or more, the Italian status quo was resilient, and change was gradual because new political institutions were captured by old elites. Thus, Italians had to wait until 1912 before they gained quasi-universal male suffrage which enfranchised the poor and illiterate; and recent research shows that this had no immediate impact on the parliamentary representation of aristocratic and traditional elites.<sup>40</sup>

In 2023, change for meaningful reform needs to be on the agenda given the EU-wide problem of household precarity dramatized by a cost-of-living crisis in the middle of a nature and climate emergencies. The preconditions of safe and civilised life cannot be taken for granted by a growing number of households in middle income as well as low-income groups. The foundational approach is to begin to address these manifest problems by shifting thinking about economy and society in ways that redefine the policy interventions which are possible and necessary.

- ✓ Shift the monetary objective from increasing individual gross income/ wages (as in the EU framing) to managing household expenditure on the universal essentials (housing, utilities, transport and food) so that low- and medium-income households have a decent residual income after these expenses.
- ✓ Shift from supply-side high tech investable projects (as in the EU framing) to direct demand-side interventions which recognise the importance of collective consumption. Because essential services (like health, education and care) and social infrastructure (like parks, libraries and community centres) cannot easily be accessed using private income and require state funding and/ or direct state provision.
- ✓ Shift the locus of initiative from top-down big projects delivering digital and clean technology (as in the EU framing) to include bottom-up and dispersed social innovation. These improve residual income, basic services and social infrastructure, all of which jointly determine foundational liveability.

These three shifts open the way to a politics of improvement which could directly benefit households and at the same time threatens the interests and assumptions of elite policy makers who will push back through resistance and capture. The remaining sections of this report will develop the evidence and argument behind these positions.

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<sup>40</sup> <https://sticerd.lse.ac.uk/dps/eopp/eopp32.pdf>



## (1) Foundational aims

The foundational aim is not higher market incomes for individuals but liveability for households within a low carbon framework. And the first step is to explain that the foundational concern is with the household not the individual, because most Europeans live in multi-person households that share income and expenditure.

- ✓ Expenditure sharing in multi-person households is the norm. Because of later marriage and increased divorce, the number of single person households is increasing. But 126 million out of 198 million, or nearly two-thirds of all EU households in 2022, were still multi-person households. The average EU household in 2022 had 2.2 members and almost exactly one quarter of EU households included children who are dependent on parental earning power.<sup>41</sup>
- ✓ With the long-term rise in female workforce participation, the male breadwinner household is now increasingly a historical curiosity in northern Europe and in a minority everywhere. The gender gap in employment rates across the EU is now no more than just over 10%: in 2022, 80% of men aged 20-64 were employed and the comparable employment rate for women had reached 69.3%. Workforce participation rates for women aged 25-54 are at 60% or below in some southern European countries but are above 80% in Scandinavia and some central European countries.<sup>42</sup>

Liveability then depends on three conditions which come together for a household in a place as shown in the 'temple of liveability' diagram in figure 4. Household liveability depends not just on income but on income plus services plus infrastructure. And the income that matters is not gross or disposable individual income, but household residual income. So, households need:

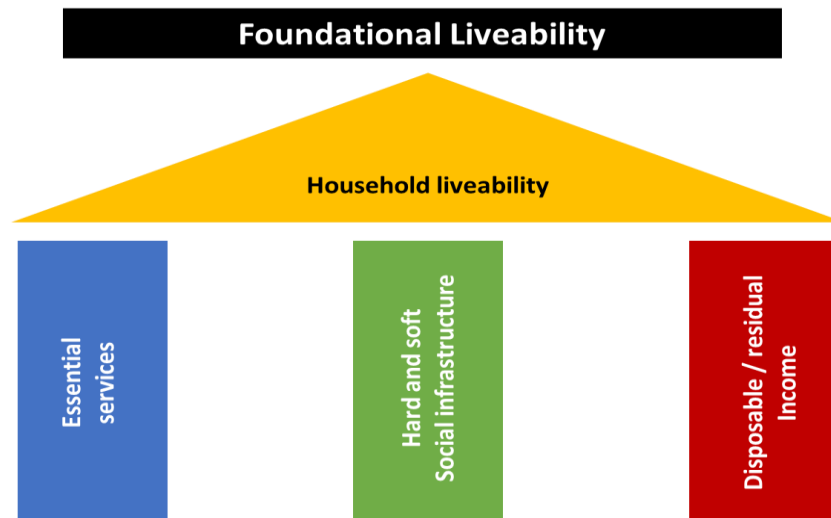
- accessible, quality essential services, both pipe and cable utilities and welfare state services like health, education and care.
- social infrastructure like parks, libraries, community centres, leisure centres and so on, which sustain sociability.
- residual household income i.e., something left over from post-tax income after paying for the four foundational economy necessities of housing, utilities, food and transport (which we term the FE4).

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<sup>41</sup> [Household composition statistics - Statistics Explained \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1)

<sup>42</sup> [Household composition statistics - Statistics Explained \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&plugin=1)

Figure 4: The 'temple of liveability'



## (2) The cost-of-living crisis is about squeezed household residual income

The importance of residual income was underscored in 2022-3 because the cost-of-living crisis is a problem about a severe squeeze in the residual income of those in low- and medium-income groups. Even before the recent inflation, these households had a small margin of income after they had paid for the FE 4 universal essentials of housing, utilities, food and transport. These issues are explored in detail with new evidence from the national statistical offices of six European countries in our forthcoming working paper,<sup>43</sup> with some of the results summarised in figure 5.

The starting point is the pre-crisis 'undisturbed' position in the years 2018-21 of low-income households in the bottom 18-25 % by net income. In all six countries listed in figure 5, these households were spending nearly half of their net income (after taxes and benefits) on the FE4 essentials (housing, food, utilities and transport); whatever is left can be spent on childcare, mobile telephony etc. And in Germany and Italy they were spending nearly three-quarters of household net income on the FE4.

This pre-crisis spend on FE4 essentials was a nearly irreducible minimum because poor households already economise on these essentials so that they can afford everything else. The available margin of monthly residual income after the FE4 was never generous and varied between Belgium where it was €840 per month and Italy and Germany where it was no more than €398 and €290 respectively. So low-income households were very poorly placed to deal with price spikes in essentials or indeed general price inflation.

<sup>43</sup> D. Bassens et al. (2023) 'Market entitlement and the FE4 metric after the cost-of-living crisis' (forthcoming). Available from: <https://foundationaleconomy.com/publications/>

**Figure 5: Share of FE 4 in mean monthly expenditure of low-income households in six European countries**

Bottom 18-25% of households by net income 2018-21	FE 4 as % of total spend (end 2022)	Housing as % of total spend 2019	Food as % of total spend 2019
Austria	46% (55%)	20%	14
Belgium	56 % (65%)	30%	16
France	48% (55%)	15%	18
Germany	72% (78%)	40%	19
Italy	72% (82%)	33%	26
UK	52% (63 %)	22%	18

Source: Bassens et al. (2023)<sup>44</sup>

Note: the size of the group of low-income households depends on how national statistical agencies present data, including by grouping households into deciles, quintiles, quartiles or sixths.

After Ukraine war and inflation kick in, energy costs rise variably by country between 33% and 89% with food price increases following. So, on our calculations, after making various estimates, the outcome is a price/ wage (incomplete) catch-up spiral because the increased price of FE4 essentials taken out of lagging household incomes means a 5-11 % increase in the percentage share of FE4 essentials in household income. This now ranges above 60% in four of our six countries and tops out at 78% in Germany and 82% in Italy, where heating vs eating decisions become commonplace in poorer households.

The problems of energy price spike and general inflation for low-income households were compounded by the policy responses of national governments to the energy price spike. They intervened on the principle that ‘the middle classes also deserve our support’ and in most cases larger sums of cash support went to middle- and upper-income households who had higher residual incomes of typically €2-3,000 every month and could more easily manage price shock.

The think tank Bruegel has calculated that all across the EU and in the UK, nearly three-quarters of the allocated spend was directed to reducing the price of energy rather than raising the incomes of households; and that six times as much was spent on universal policies as on selective policies that targeted low-income groups.<sup>45</sup> The logic of these forms of assistance was that upper income households, who used more units of energy, got larger absolute benefits.

The immediate focus is on disturbance through energy prices and food inflation. But at national level before this disturbance, housing cost is the big-ticket variable item with leverage over residual income in the pre-crisis years 2018-21. The importance of what might be called the national housing settlement is brought out by the contrast between housing costs for low-income

<sup>44</sup> D. Bassens et al. (2023) ‘Market entitlement and the FE4 metric after the cost-of-living crisis’ (forthcoming).

Available from: <https://foundationaleconomy.com/publications/>

<sup>45</sup> <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices>

households in adjacent Austria and Germany: in Austria housing accounts for 20% of mean monthly expenditure against 40% in Germany for low-income households. The causes of low housing costs are variable. In Austria, the driver is social housing; in France it is excess housing supply outside Paris; and in the UK the driver is rent subsidy for low wage earners which benefits private landlords.

### (3) The intellectual challenge of three-dimensional thinking

The foundational shift in objective from growth to liveability is intellectually challenging because it involves a change from one-dimensional thinking to three-dimensional thinking. Within planetary limits, growth is about one desideratum, that is, the value of marketable output captured by national income accounting. Whereas three-pillar liveability is about heterogeneous desiderata (residual household income, basic services and social infrastructure) which must all be present and aligned. Isaiah Berlin distinguished between 'the fox who knows many things and the hedgehog who knows one big thing' and, on this basis, household liveability is about fox-like thinking and doing.

Intervention then becomes much more complicated. With the one objective of growth, policy is centred on the support for investable projects that are intended to directly deliver growth (e.g., that new car battery factory) or remove obstacles to growth (e.g., transport infrastructure or upskilling). The only mainstream complication is that what EU policy elites now want is the right kind of growth which delivers recovery into the clean and green transition and that is dealt with by privileging particular sectors.

Given the one goal and destination it then becomes relatively easy to align actors in multi-level government and governance around the technocratic pursuit of growth. Thus, EU and national governments agree plans before sub-national policies agreed between national governments and regional actors. As we have argued, their policies will not deliver the promised growth, but everybody understands what to do.

In contrast, foundational problems and solutions are more heterogeneous and complicated.

- Residual income is not simply a matter of national government policy on wages, taxes and benefits which determines disposable income but also a matter of the deductions for essentials like housing or transport which are both on and off the market in complicated ways.
- Social infrastructure has seldom been a considered object of policy at national or regional level. National governments typically do not have policies on the provision of public parks or swimming pools. This is more a matter of planning/ zoning plus local/ municipal government discretionary spending of local surpluses.
- Basic services involve complex tasks of rebuilding and upgrading systems of pipe and cable utilities, housing or welfare state services like healthcare and education. All were typically constructed 1870-1970 in the FE 1.0 period when European countries first introduced

systems which made urban life safe and civilised.<sup>46</sup> Now, social priorities, economic context and technical possibilities are hugely different. And yesterday's solutions are today's problems, as in figure 6 which shows that housing, energy and transport account for more than half of total emissions in the EU.

**Figure 6: EU CO2 emissions and the significance of emissions from energy, transport and households**

Greenhouse gas emissions, EU	(million tonnes of CO2 equivalents)		% share of total in Q3 2022
	Q3 2019	Q3 2022	
Sector			
Agriculture, forestry and fishing	121	121	14%
Mining and quarrying	13	13	1%
Manufacturing	201	193	23%
Electricity, gas, steam and air conditioning supply	184	177	21%
Water supply, sewerage, waste management	37	38	4%
Construction	13	13	2%
Transportation and storage	119	110	13%
Services (except transportation and storage)	69	69	8%
Total activities by households	133	123	14%
<b>All NIACE activities plus households</b>	<b>889</b>	<b>854</b>	<b>100%</b>
<i>Of which, energy, transport &amp; households</i>			<i>48%</i>

Source: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quarterly\\_greenhouse\\_gas\\_emissions\\_in\\_the\\_EU](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Quarterly_greenhouse_gas_emissions_in_the_EU)

Many of these problems have been aggravated and made more difficult to solve by post-1980s financialization and post-2008 austerity. Many revenue earning systems like utilities have been messed up by extractive privatization and underinvestment as in energy or water; or by assetization, as in the case of housing. The result is reliance systems which are underinvested in and crumbling through neglect, from Italian autostrada bridges and tunnels to Greek railways. Equally, much welfare state provision is underfunded and misdirected as with health systems geared to acute intervention, not prevention.

#### (4) The political challenge of multi-level government

Intervention is further complicated by multi-level government in the EU, whereby supra-national institutions stand above national authorities which have substantial autonomy in many areas of foundational provision. Most EU states are unitary so that these competences are reserved for

<sup>46</sup> Foundational Economy Collective (2018) *Foundational Economy. The Infrastructure of Everyday Life*, Manchester University Press.

national government, though Austria, Belgium and Germany are formally federal while Italy and Spain have devolved substantial powers to their regions. National government traditionally involved the alternation of centre-left and centre-right parties in government. But matters are now considerably more complicated, especially where (under some form of proportional representation) the electoral system reinforces political fragmentation.

All this adds political complications. Elite priorities on the supply-side can be and are sorted in a straightforward way through negotiation between Brussels and national government - as under the National Plans. The rest can be top-down controlled by central appraisal of projects according to standard criteria, so that EU funding can flow downwards to allow execution of projects regardless of differences in national political settlements. But the foundational approach encounters political complications after it shifts the focus onto the demand-side.

- ✓ National settlements on foundational provision vary considerably so one size cannot fit all. In housing, there is considerable national variation in the role of social housing, the nature of controls on, or subsidy of private renting, and the extent of owner occupancy of homes. In public transport, most European cities of any size subsidise public transport, but the extent of that subsidy is very variable, and few European commuters benefit from the flat rate 1 euro per day public transport fare in Vienna.
- ✓ Demand-side priorities cannot or, more precisely, should not, be set by top-down decision making. If policy is to be done for households (not to households), there needs to be participation and political engagement at regional and civic level about the choices and trade-offs. The question of what citizens want cannot be avoided in the foundational approach which cannot rely on elite views of what citizens need and value.
- ✓ Implementation at national, regional and local government level will require the rebuilding of old capabilities and adding new capabilities in the government machine. Organisational and project management capabilities have atrophied through long years of government retreat in many West European countries. More radically, it is clear that government needs new capacities which require innovative institution building and knowledge acquiring.

The importance of government capacity and the need for institution building should not be underestimated. Supply-side projects require only a national or regional development bank or fund to disburse monies and maybe undertake project appraisal. The demand-side in a crisis-ridden Europe needs big data knowledge of household incomes and machinery for income support that goes beyond existing social security provision. This would allow targeted household assistance which was conspicuously lacking in the pandemic or the subsequent energy price spike.

### (5) But, what if radicals cannot change the elite framework?

In the light of the argument so far, what Europe needs is a political turn to the household priority of liveability and against the elite priority of 'making the economy work'. The default strategy of radicals has been to pursue some kind of framework change through a combination of winning elections and lobbying after producing manifestoes and reports. The aim is to capture the seats of

elite power in higher level government at nation state and EU level; and to persuade – or replace - politicians and officers who can (with a new framing) reform the government machine and redirect dysfunctional institutions like the EIB.

It is time to confront the limits of this capture and redirect strategy in the 2020s given the state of the world and the limits of existing government machines.

- In the world as it is, all of us live in an earthquake zone on at least four intersecting fault lines: (1) nature and climate emergency (2) pandemic threat (3) financial instability in a long chain, debt-based system and (4) geo-political rivalries in a multi-polar world. We are trying to get attention for household priorities in a world where nobody can predict the next crisis, and many are preoccupied with the last crisis. Attention to the last crisis matters in order to learn, but it does not on its own produce reform results. This is evident in the ways that higher levels of government have recognised and then conspicuously failed to deal with climate change, the reform of finance or the threats to public health.
- The existing governmental machine cannot easily deliver successful reform. A change of framework and priorities requires valour, conscience and intelligence in high level officers and politicians. Instead, risk averse officers serve opportunist politicians who are returned by inattentive and superficial electorates no longer stabilised by mass unionism and social democratic parties. Instead of paradigm shift, the political classes cling to their framing by remixing tropes around taken for granted metrics, as when 2010s transport infrastructure investment to drive growth becomes 2020s clean energy supply to deliver green growth.

At the same time, it would be foolish to ignore or bypass higher level government. National or EU government can always do more damage if worse scoundrels install themselves. And high-level government has a huge stock of legitimacy and resource in terms of what it can do and spend, while it is internally organised into a system of satraps and silos which sustain internal confusion, conflict and dissent which radicals can exploit.

But it would be wise to lower expectations and not expect too much too soon of higher-level government. Over one or two terms, national and supra national government is not a machine that can be captured and redirected by an army of progressives but a bank of capacity and resource that can be raided by groups of guerrillas. In the longer term all could hope and work for more systematic support for, and recognition of, household priorities. But the precondition of that reset is likely to be, not capture of the apparatus at higher level, but performative success at the lower levels which can then lead to adoption and imitation of social innovation at the higher levels. If national government and the EU are not leaders but followers, the foundational question then is how to engineer a turn to household priorities at lower levels?

## (6) Adaptive reuse and the politics of improvement

Because the framework cannot easily be changed at high level, the general principle of foundational action is adaptive reuse. The term is taken from the French architects Lacaton and Vassal who refurbish modernist social housing blocks instead of knocking them down. The idea of

adaptive reuse overlaps with the Levi Strauss concept of bricolage and the Japanese factory practice of kaizen/ continuous improvement from where we are now (more so than transition towards where we want to be). In foundational economy, the aim is improvement of what exists through alliances for change (not transformation based on agreement about a destination goal).

Much of this requires an engineering understanding of system priorities and possibilities in a particular place where systems intersect to create mess; and often (as with housing) adaptive reuse requires a place specific alliance of governmental and non-governmental actors to execute. Improvement cannot be delivered by single point projects which, for example, add high tech (like digitalised medicine or battery electric cars) allowing households to carry on living as they do now.

Supportive national and supra national government always helps if (out of their confusions) change makers can extract some money or support from government. But improvement will begin one municipality or region at a time and the process is performative but not simply scalable because of differences in local circumstances. The initiative will usually come from local disrupters with agency in key institutional positions. Charisma is not enough because the disrupters must be politically capable of building alliances for change and sensitive to a field of relevant considerations and calculations.

- (1) Understand 'where the shoe pinches' on liveability i.e., where basic needs are not being met because reliance systems are not working, and essential goods and services are not accessible. Because foundational services are locally delivered but regionally or nationally organised, the scale of intervention and the scope of effects is not fixed to one locality.
- (2) Identify environmental priorities from a map of 'where the chimney belches/ where the ruminants burp' in specific places. This both involves some kind of emissions map and some sense of how places fit into a pattern in a regional or national economy. Maps of municipalities in Europe and the sources of their carbon footprints already exist. This should lead towards structural change decisions, such as reducing the herd of ruminant animals.<sup>47</sup>
- (3) Understand the lever of change is usually not disseminating major innovations but changing the uses of old technologies and patching in the new. This requires fewer spread sheets of financial return and more engineering analysis of possibilities of making systems fit for new purposes as in private and public sector housing retrofit. It also requires building of capabilities to do project management, especially in government which is hollowed out at all levels. All this is central to housing retrofit, where the Italian and British experience highlights the limits of any approach to retrofit which relies on financial incentives for householders.
- (4) Recognise that expenditure procurement can be used to build the responsibility and capability of supplier firms. This is an opportunity to secure distributive justice for labour and capital which may be compromised when firms compete for contracts on least cost. All supplier firms bidding for contracts should be obliged to disclose standard accounting information as below. Because a financially sustainable, socially responsible stock of firms is effective predistribution, and a secure basis for delivering long term social value. It is symptomatic that the EIB neglects these accounting fundamentals when appraising

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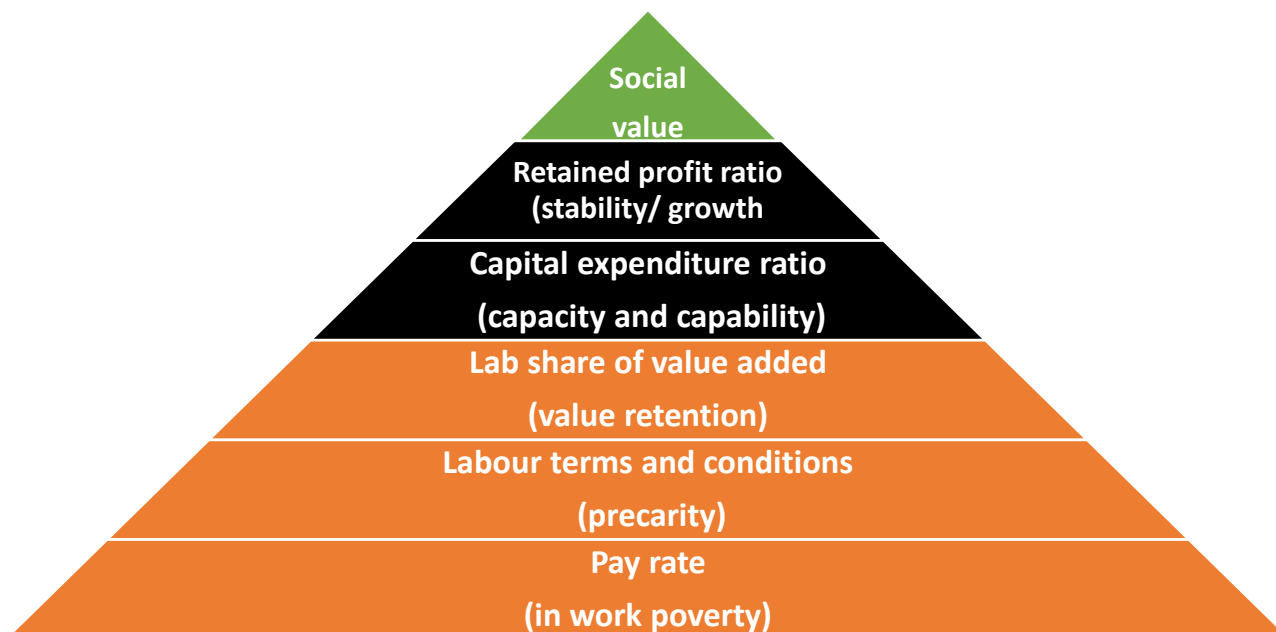
<sup>47</sup> <https://openhghmap.net/>



borrowers and instead (with a very light touch) under the PATH framework it does inquire into whether borrowers are decarbonising.<sup>48</sup>

- (5) Think not just of projects but of sponsors and consider whether proposals bring together different actors (private, public and third sector) from a multi-level government and governance system in an alliance for change.

**Figure 7: Accounting information required of supplier firms**



### (7) The projects we have and the priorities we choose

It is important to start by appreciating and celebrating what already exists in the form of pioneering projects of social innovation which deliver not a new settlement but fragments of a future that works. As William Gibson is considered to have observed, 'The future is already here, it is just not evenly distributed'.<sup>49</sup> In Wales, where Foundational Economy Research (FERL) is actively engaged, we can list a whole series of small-scale foundational projects which address household liveability. And in any other European region it is easy to find examples of good, working projects where social innovators in local government and civil society are improving foundational liveability. They do so usually without knowing the word or reading the foundational literature because they intuitively see and recognise the need to respond to household needs.

In Wales it has been easier to start capital-light projects of social innovation because they need management accounting but do not require lots of borrowing and a balance sheet. Some examples include:

<sup>48</sup> <https://www.eib.org/en/publications/20220007-the-eib-group-path-framework>

<sup>49</sup> <https://quoteinvestigator.com/2012/01/24/future-has-arrived/>

- Reform of labour-intensive domiciliary care in a local authority (Gwynedd) and the movement away from a 'time and task' approach to the bio-medical needs of older people This is much easier than reform of residential care which involves buying or renting buildings.
- The provision of mobile grocery vans, meal ingredient kits and cooking lessons in social housing food deserts by Clwyd Alyn Housing Association, in alliance with its local authority; and related innovations by Clwyd Alyn in central kitchens to provide healthy meals on the public plate in care homes and schools.
- The 4-day week for staff at Merthyr Valley Homes which offers workers 'the gift of time' with management claiming that the same quality services are being provided without hiring more staff. This is crucial for low paid workers who cannot afford to marketize childcare and other responsibilities.

These many good deeds are still mainly in small corners of a bad world. This makes sense because experiment with social innovation is necessary when reformers often start without knowing what to do or how to do it (even when the household priority is clearly understood). But the task now is to network and connect the social innovators and their learnings as is already beginning to happen in activities like home care reform in Wales.

But if attention shifts to consider capital intensive projects, it is notable that Wales has some local success stories, but they are fewer in number and take much longer to move from small beginnings to impact at a district level which in Caernarfon has taken 30 years.

- The renewal of Swansea High Street by Coastal Housing with five stories of social housing above and alternative retail below plus a department store repurposed as arts centre and studio space.
- The transformation of historic Caernarfon town led by a social enterprise, Galeri Caernarfon, starting with the conversion of derelict shops in the old town, moving on to an arts and community centre requiring just 15% of income in the form of grants and now developing maker spaces on the old Slate Quays site.

Slow progress with social housing and urban renewal indicates the real problems about covering the costs of capital expenditure even with government grants and then the difficulty of developing responsible business models which recover operating costs and thus avoids continuing grant dependence. The question is how to/ where to accelerate progress.

And this observation about slow progress with capital intensive projects takes us towards a sweet spot. If the framework cannot be easily changed, the priority is to find the sweet spot where the elite taken for granted and household priorities overlap so that radical activists can make a case which is acceptable to elites for outcomes which are a household priority. From this point of view, the question is whether and how the whole apparatus of EU grants and EIB loans could be tilted away from the pursuit of green growth and towards capital intensive social projects with a liveability benefit.

The possibilities are obvious in all kinds of construction. Not just in new build but in all kinds of reuse which is practically crucial given the embodied carbon costs of demolition plus rebuild. In cases like social housing or care homes, it is possible to construct investable projects which benefit

liveability and projects which meet EIB criteria. Because here there is an income stream which can pay off a loan. And there is scope here for innovation like, for example, new kinds of centres which combine accommodation for young and old people with facilities like cafes and meeting rooms open to the wider community. It would be sensible to have a target for the proportion of EIB loans going into construction for liveability.

The limit here is that many community facilities for delivering services or providing social infrastructure - schools, hospitals leisure centres and libraries - draw most of the income for capital expenditure and operating revenue from taxpayer revenues at national and or local level. In these cases, it would be cramping to rely on EU grants which are inevitably limited in amount and will not cover operating costs for any length of time; and it would be foolish to rely on public private partnerships which admit an extractive private partner. What Europe needs is loans from the financial markets at the lowest possible cost, via a public mission triple-A credit-rated intermediary like the EIB, because these allow larger scale action and the recycling of funds into new projects. But how are loans to be repaid?

The precondition for repaying large scale EIB loans out of tax revenue is the reinvention of national and local taxation so as to reduce reliance on the kindness of strangers. Our taxes on income and consumption are legacies of an earlier age: modern income tax dates from the Napoleonic Wars, social insurance from Bismarck's Germany in 1883, value added tax was first introduced in 1954. Our taxes bear regressively on consumption, impose high marginal tax rates on low-income earners and largely ignore wealth. But the ratio of wealth to GDP has increased dramatically in all West European countries over the last 50 years and wealth is generally distributed twice as unequally as income. So, some form of wealth tax (especially on the passing of wealth between generations) would be a good starting point at national level.

If that suggestion on taxation is radical, it should also be noted that redirecting EU funding into (re)construction should be only part of larger activist struggles over housing at national and local level. Our international comparisons show how low-income households benefit from cheap housing which is a foundational priority because in the long run, housing cost gives us powerful leverage over residual income and liveability. Building and rebuilding social housing with EU funds is not enough; Europe also needs local and national activist campaigns for rent control and/ or rent subsidies on public and private housing as part of a larger struggle against the assetization of housing.

We should not copy and paste the naivety of EU policy makers in assuming that one policy can solve many problems. Energy-inefficient housing is a burden on the planet and a major source of emissions when all buildings account for 36% of EU greenhouse gas emissions; while heating, cooling and domestic hot water account for 80% of the energy that EU citizens use.<sup>50</sup> But retro fit is likely to produce rebound effect so that notional reductions in energy consumption are unlikely to be realised as low-income households turn up the thermostat and heat more rooms to enjoy the standard of comfort which others take for granted. This too is liveability.

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<sup>50</sup> [https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive\\_en](https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en)