Warsaw, November 30, 2020

The government's vetoing of the EU budget is harmful, and false argumentation is used

- **Without the rule of law, there will be no economic development**
- **Poland has gained more from the EU membership than a pure inflow of EU funds and much more than large richer countries, and falsifying the above is pure manipulation**
- **Economic openness, foreign investments are beneficial for economic development**
- **Vetoing the EU budget by the Polish government is harmful to Polish society, it will cause irreversible losses.**

Increasing the prosperity of our society requires building a modern, innovative and resilient economy. And this requires openness to the world and the rule of law. Openness enables companies to specialize and increases efficiency, and the rule of law protects citizens and companies from discretionary actions by authorities. Therefore, in the interest of further prosperity of Poland and well-being of its citizens, we are protesting against the unjustified undermining of the importance of the rule of law, the benefits of our membership in the European Union and the presence of foreign investors in Poland.

The Regulation of the European Parliament and of the Council on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States refers to the provisions of the rule of law contained in Article 2 of the Treaty on European Union. In art. 2 (a) of the regulation, we read that the term "rule of law" refers to the principle of legality, meaning "a transparent, accountable, democratic and pluralistic process of adopting legal acts; legal certainty; prohibition of arbitrariness of executive authorities; effective judicial protection by independent courts, including of fundamental rights; separation of powers and equality before the law".

The governments of Hungary and Poland want to veto the next EU budget perspective for 2021-2027, presenting the issue of the rule of law as an attack on the sovereignty of member states. Discussions on this subject are accompanied by voices questioning the benefits of Polish membership in the EU, or foreign investments located in our country. How dangerous it can be to try to capture political capital by attacking Brussels can be seen from the example of the United

Kingdom. Contrary to its original intentions, the Conservative Party, under pressure from the extreme part, led to Brexit, the negative economic effects of which will be felt for years.

We protest against:

- **Opposing the rule of law and sovereignty.** The rule of law is primarily in the interest of Polish citizens and companies, protecting them against the discretionary actions of the authorities. Numerous works document the positive relationship between the rule of law and economic development. Problems with the rule of law not only in a visible way reduce GDP growth (see e.g. Guillemette et al., 2017; Barro, 2015; Haggard and Tiede, 2011; Bakker et al., 2020), but also make entrepreneurs less inclined to expand their companies (Estrin et al., 2013). A very important aspect of the rule of law is the independence of the judiciary system - countries where the courts are not independent develop slower (Voigt et al., 2015).

- **Questioning the benefits of Poland's membership in the EU.** Poland is a relatively small country (38 million inhabitants), but thanks to our membership in the EU, Polish companies have access to the huge internal EU market (almost 450 million inhabitants). The benefits for Poland from the access to the common market are estimated at over 10% of our GDP (in 't Veld, 2019). The benefits of the EU membership are reflected in the potential losses associated with leaving the EU - the British government estimates that the lack of an agreement with the European Union will reduce British GDP by 7.6% in the next 15 years, and even in the most optimistic scenario of a comprehensive agreement, the UK GDP will be 1.4% lower. For a smaller country with a much weaker negotiating power, the potential losses related to leaving the common market would be even higher. Moreover, Poland, unlike the UK, is a net beneficiary of the inflow of the EU funds, which additionally increases our membership benefits.
- **Questioning the benefits of foreign investments.** The data presented in the media on the profits of foreign companies in Poland are intended by the authors to evoke a feeling of economic exploitation of Poland. However, they overlook two fundamental issues - the value of the funds they had previously invested and the resulting benefits for the Polish economy. Foreign firms' profits are a reward for prior investment - no one should expect private firms to act pro publico bono. Secondly, most of the profits are reinvested in the development of these companies, and only a part is transferred to their owners. There is extensive literature showing that not only investors themselves benefit from foreign investment, but also the economies of host countries. The benefits of foreign investment go well beyond the jobs they create, or the taxes and social security contributions paid. They are related to technology transfer and stronger integration of the national economy into global supply chains. Based on the literature review (Lamsiraroj and Ulubaşoğlu 2015), it can be estimated that thanks to foreign investments, the Polish economy is approximately 17% larger; The Polityka Insight (2016) draws similar conclusions when estimating the positive effects of foreign investments in Poland at 15.6% of GDP.

The intention of the Polish and Hungarian governments to veto the EU budget falls under exceptional circumstances. The European leaders decided to add the Next Generation EU (NGEU) instrument worth EUR 750 billion to the standard, multi-annual EU budget (worth over

EUR 1 trillion). The amount totaling EUR 1.8 trillion will help rebuild Europe's economy after the COVID-19 crisis. The new Europe will be greener, more digital and more resilient to crises.

NGEU is the largest aid package in Europe for several decades. The key element of this program is the Recovery and Resilience Fund (RRF). Its purpose is to stimulate and accelerate economic recovery in the EU economies hit by the crisis.

According to the agreed distribution formula, under the Recovery and Resilience Fund, Poland is to receive EUR 23 billion (approx. PLN 105 billion) in non-repayable grants and EUR 34 billion (approx. PLN 155 billion) as loans. The total is EUR 57 billion (approximately PLN 260 billion). However, every zloty from this program can generate additional economic growth, and thus additional jobs, additional investments, profits and income, also public revenue in the form of taxes and social security contributions. Therefore, if these EU funds were taken from us, the losses for Polish society would be many times greater.

Moreover, this reconstruction program, according to the European Commission's analyses, based on the QUEST macroeconomic model, may bring the greatest benefits for GDP growth to such economies as Poland and Hungary. GDP in our region (i.e. in Poland and Hungary), as a result of the absorption of the funds from this plan, may increase permanently by over 2% in the long term, and in the culmination of absorption of funds even by 3.5%. In the Netherlands or France - generally in the richer economies in the EU, the NGEU plan will generate additional GDP growth in the long term by approx. 0.5%, and by 1% at its peak of absorption. So Poland's benefits from this program are three times greater compared with the rich economies in the EU. This shows the EU's true solidarity.

There is no provisional budget for an additional fund (NGEU). Veto means no program, a suspension of its implementation. In the situation of the first recession after our economic transformation, this program is crucial for Polish companies, Polish local governments, local communities and families. Also Polish public finances are severely strained, with public debt soon exceeding PLN 1.5 trillion. The crisis and many measures reducing the income of local government units have also severely strained the finances of the local units. The European economic recovery package will allow us to finance the recovery and development of the economy without making Poles more indebted.

Poles feel European and want to remain citizens of the European Union. They know very well that the presence in its structures so far is an unprecedented leap in the civilization development of our country. The EUR 1.8 trillion agreement we are calling for would be a proof of the Polish government's constructive commitment to solving Europeans' problems, such as fighting the pandemic and its economic consequences.

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The Association of Polish Economists (TEP) promotes economic knowledge and explains the economic phenomena of the modern world, promoting respect for private property, free competition and economic freedom as conditions for Poland's development. It brings together business practitioners and theoreticians of various fields of economic sciences.

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