ELEC High Level Opinion: Let us use the "Next Generation EU" Fund, imbedded in an ambitious Multi-Year Financial Framework, as a driver for change in the European Union

5 June 2020 - European League for Economic Cooperation - Fondation Universitaire Rue Egmont 11 – **Brussels**

This High-Level Opinion is a follow-up to the Opinion adopted by ELEC on 2 April 2020 on "Audacious solidarity and coordination to save EU citizens and the EU project". It builds on contributions from several ELEC national sections, including ELEC-Spain and ELEC-France. Now that lives have been saved and measures have been taken to keep infection rates low and contagion at bay, jobs and entire sectors of the economy need to be saved. The proposed "New Generation EU" Fund unveiled by President von der Leyen on 27 May could be a game changer in restoring hope, demonstrating that sacrifices have not been vain and becoming a model of European solidarity. ELEC wants to express its full support for that initiative.

It is complementary to the previous agreements and initiatives that ELEC also welcomes and supports:

- The agreement at the European Council of 23 April on a comprehensive economic policy response to the Covid-19 crisis, with three components, providing safety nets respectively for workers (SURE), businesses (the EIB Guarantee program) and sovereigns (ESM Support) for a global package worth 540 billion euros. **However, these safety nets are using only loan instruments, which have the disadvantage of increasing the debt of their beneficiaries**.
- On the monetary policy side, the ECB program of asset purchases against the pandemic (PEPP) at € 1.35 trillion euros after the increase of 600 billionn euros announced on June 4th; the extension of the horizon for net puchases under this program until June 2021; and the commitment to conduct such net purchases until it judges that the coronavirus crisis phase is over. This is a crucial program to maintain confidence in financial markets and prevent an unwarranted increase in interest rates paid by Member States. **However, the May ruling of the German Constitutional Court shows that the ECB bond-buying programs are meeting resistance and have to be complemented by bolder initiatives, demonstrating fiscal solidarity among countries of the euro-zone.**
- The joint initiative announced on 18 May by German Chancellor Angela Merkel and French President Emmanuel Macron. The way of raising funds up to an unprecedented size by European Commission borrowing on capital markets and their allocation in the form of grants (rather than loans) are a real breakthrough towards a Fiscal Union –albeit limited-. Fiscal Union, which has been until now the most significant missing piece of the Economic and Monetary Union, needs in fact to be further developed in the European architecture. These 500 billion euros, to be allocated in the form of grants, would now be complemented by 250 billion euros in the form of loans, forming together a new recovery instrument called "Next Generation EU". **ELEC very much hopes that, despite objections voiced by some Member States, the size and design of this recovery instrument will be accepted**, bearing in mind that the funds will be spent on commonly agreed programs and priorities.

In ELEC's view, this constructive initiative is a step in the right direction, significant in terms of policy message but still rather small in macroeconomic terms. The dynamic approach must be maintained, including the link to an ambitious Multiyear Financial Framework (2021-2027). The new MFF proposal appears well balanced. ELEC supports the idea of contemplating the introduction of new resources (linked to the Emissions Trading Scheme, a Carbon Border Adjustment Mechanism, a digital tax, etc.). New impulse should be given to the discussion of a minimum corporate income tax level in the EU to prevent fiscal dumping.

Now kick-starting the economy is essential. **Even though Member States have given their agreement in principle for a recovery plan considering the exogenous, global and symmetric nature of the shock, there is a considerable asymmetry among the countries in the consequences of the crisis and the resulting financing needs in this post-lockdown period.** Economic positions of countries differ indeed with regard to their labour markets, public finances and fiscal space to support their domestic economy[1], their sectoral

[1] *Example: Some countries have provided state aid and risk capital to companies e.g. risk capital : Germany at national and regional level, Austria, only regional, City of Vienna.*

structure (exposure to services dependent on person-to-person such as tourism and leisure) and their belonging or not to the eurozone while some were already more vulnerable than others when the health crisis hit. No countries nor regions should be left behind. EU needs to start thinking strategically on the purpose of the fund and the way it will implement it in building a more resilient economy and a stronger European Union.

"Next Generation EU" should focus on the broader EU societal goals, in particular the green and the digital transitions

"Next Generation EU" should concentrate on investment: public investment –which has been lagging behind at least for a decade- and support to private investment, which could be paralyzed by the crisis. It should serve as a trigger for a new and ambitious growth strategy. The funds must be applied throughout the European territory, targeting the regions, the sectors and the companies, including SMEs, that have been most severely hit by the pandemic. Its design should promote the broader E.U. societal goals and the priorities adopted by the von der Leyen Commission. A more proactive industrial policy should complete the encouraging EU4Health program aiming to invest in prevention, crisis preparedness, procurement of vital medicines and equipment through enhancing R&D:

- "Next Generation EU" should support, even **accelerate the EU's Green Deal ambition** and the transition towards new forms of economic organization such as the circular economy.
- As concerns the Digital Strategy, funds should be dedicated in priority to **facilitate the transition from the installation phase to a deployment phase of the digital economy in order to benefit from productivity effects**[2] A digital strategy can help support key sectors such as tourism and the sectors involved in the transition towards a zero-carbon economy. **A proper strategy for digital infrastructure throughout the E.U. territory should be elaborated**, making sure that infrastructure also covers remote areas in order to avoid a social divide between those who have access to digital instruments and those who are not connected.
- The crisis also put light on the vulnerabilities of global supply chains. Companies will review and restructure their supply chains, tending towards diversifying out of Asia and re-shoring some elements of the chain. **A proper industrial strategy is needed in Europe in order to benefit from a coherent redeployment of supply chains** within E.U. member states.
- **Education, up-skilling and retraining should be a priority** in order to ensure that the labor force is properly prepared to foster disciplines in urgent need: health, environmental science, digital technologies, artificial intelligence, cybersecurity, etc. … This is the only way to fight long – term unemployment.
- Finally, **debt issuance by the European Commission on a large scale would create the much wanted "common safe asset",** which is essential for the future development of the Capital Market Union[3]. CMU would facilitate the allocation of capital to long-term projects and the financing of innovation by mobilizing household savings towards longer-term instruments dedicated to growth and innovation. It would also foster the development of the euro into a full-fledged international currency. As many companies will face solvency issues in the coming months because of the sudden interruption of businesses and the sluggishness of aggregated demand, it would be appropriate **to initiate some forms of harmonization of insolvency rules** throughout the E.U (inspired by Chapter 11 in the US for example).

A crisis is an opportunity to move the EU forward and it should not be missed. Let us not miss this one.

Bernard Snoy et d'Oppuers (President ELEC International), Rainer Boden (Vice-President ELEC International), Servaas Deroose (Special Advisor to President ELEC International), François Baudu (Secretary General ELEC International), Andreas Grünbichler (ELEC Austria), Branco Botev (ELEC Bulgaria), Olivier Klein (ELEC France), Wim Boonstra (ELEC Netherlands & Monetary Commission), Maciej Dobrzyniecki (ELEC Poland), Antonio Martins da Cruz (ELEC Portugal), Radu Deac (ELEC Romania), Frances Homs Ferret (ELEC Spain), Thomas Cottier (ELEC Switzerland), Philippe Jurgensen (President ELEC Economic and Social Commission), Senén Florensa (President ELEC Mediterranean Commission), Javier Arias (ELEC International).www;elec-lece.eu

---

[2] Bart van Ark, University of Groningen, The Conference Board, *The Productivity Paradox of the New Digital Economy*; Antonin Bergeaud, Gilbert Cette, Banque de France, *Current and past recession, a long – term perspective*.
[3]See in this connection the ELEC « T-Bill Fund » proposal on https://ec.europa.eu/economy_finance/articles/governance/pdf/elec.pdf