

### **What we expect for the week of 6<sup>th</sup>- 11<sup>th</sup> April from our leaders The launch of a recovery and transition plan**

During the week of 21<sup>st</sup> - 27<sup>th</sup> March, while the COVID-19 epidemic accelerated and while economic activities in Europe broke down as a result of the lockdown, the European Union was deeply divided and acrimonious, reciprocal accusations were exchanged. Germany and the Netherlands rejected a proposal of nine countries including Italy, Spain and France, to issue so called Corona Eurobonds to support the efforts of the countries to meet exploding public financing needs. And the Minister of Finance of Netherlands used wording denounced as “disgusting” by the President of the Eurogroup. Overall, this was perceived, in particular by Italian politicians, and many European citizens, as an unacceptable lack of solidarity.

We hope that European Ministers of Finance and Heads of State will take a step back and realize that only with a cooperative solution can they minimize the social and economic damage of the ongoing global health crisis. And that they are able to demonstrate leadership and explain this to their populations. There is a very simple truth to tell. Public health, climate, biodiversity, resilience of our economic and social systems are European common goods. Protecting and developing them through an investment in one country helps citizens in all countries. We also hope that they will not only keep the Green Deal in mind, but take concrete decisions to ensure that this crisis is an opportunity to accelerate, and not to slow down the Green Deal.

While it is regrettable that the discussion on debt mutualization took such a violent tone under the present dramatic circumstances, it is by far not new among members of the monetary union. On the one side, governments in the “North” countries argue that debt mutualization would make their citizens financially responsible for decisions not taken by themselves, beside the fact that it would increase the cost of their own public debt. On the other side, governments in the “South” argue that such a mutualization would significantly contribute to the financial stability of the monetary union, a common good for all its members and be an act of European solidarity.

In this note we make a proposal conciliating mutualization, control and efficiency. This will take the form of a Fund governed by the member states, financing expenditures eligible according to agreed criteria in line with European general interest and priorities, in particular the Green Deal and authorized to borrow on the markets on behalf of the European Union.

Ongoing discussions in Brussels include proposals that could lead to some debt mutualization limited to the time of the COVID-19 epidemic. An European Community loan facility up to a total of € 100 billion that could be used by Member States to finance the exceptional spending in support of the unemployed has been proposed by the Commission (Initiative SURE). The director of the European Stability Mechanism, Klaus Regling, advocates the use of precautionary credit lines under this instrument, while recognizing that implementation conditions would require some adaptation to the present circumstances. These proposals risk, however, being considered not ambitious enough and too constraining by the most affected countries, like Italy or Spain.



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While we fully understand that some governments focus on the most immediate, day to day public health priorities, we also strongly believe that solutions implemented today to cover economic and social issues should be based not only on reflections for today and “the day after”, but for the months and the years after.

As a first reaction, the Stability and Growth Pact has been suspended to allow national governments to cope with urgent lifesaving needs, regardless of budgetary constraints. This suspension will last as long as it is deemed that “exceptional circumstances prevail”. The governments make full use of this possibility to finance health expenditures and sustain the revenue of households, exempt enterprises from tax payments and provide appropriate credit guarantees to avoid the failure of fundamentally sound enterprises. Meanwhile the European Central Bank plays its role as lender of last resort to finance public expenditures in the eurozone. At the end of this period and depending on how long the lockdown lasts and how deep the ensuing economic crisis is, all countries will show higher public debt and deficits. Because there is no doubt that some rules to coordinate fiscal policies are needed in a monetary union, the reform of the economic and budgetary governance as tabled in a public consultation at the beginning of the year by the European Commission will rapidly be back on the agenda.

Before the COVID-19 crisis, Greentervention pointed out the lack of investment that characterized the decade after the financial crisis and the gap to be filled to meet the climate objectives and ensure a sustainable economic development over the longer run. We also pointed out the fact that better public policies and more public money will be needed in several sectors, for example: to help households and enterprises insulate their residences and buildings, to help municipalities and regions build carbon-free transport infrastructures, to produce and distribute renewable energy, to transform the economies of regions dependent on carbon and to incite our farmers to produce our food and at the same time protect the biodiversity.

To mobilize public money for the Green Deal, we at Greentervention argued that the first step should be to adapt the fiscal rules under the Stability and Growth Pact, drawing lessons from the experience of last decade. The main argument was the urgency to finance public investments with high social and ecological return while interest rates were at their lowest level. Basically, we proposed that investments proven to be “Green” be deducted up to a certain amount when calculating the public deficit relevant under the Stability and Growth Pact. This was the way that we proposed to reconcile the ecological and financial sustainability of public policies.

Together with the Member States, the European Commission is preparing a recovery plan to be discussed for the first time next week. The budget of the European Community is very limited and cannot, for legal reasons, be at this stage financed by borrowing. It can therefore only be reoriented to urgent needs at the expense of long-term priorities. Because of this, the recovery plan for the whole of Europe will be based on the aggregation of national plans. There is, however, a risk that these plans are conceived only to support a short term recovery. We believe that they should also take a long term perspective so that the ecological sustainability of economic activities can be ensured.



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Against this background we propose to check the action of policy makers against the following principles:

- The plans tabled by the Member States should be quantified, while going beyond the immediate recovery. As necessary, they should be improved to provide a clear long-term perspective towards objectives of common European interest, including disaster prevention, disaster management capacities, climate change and biodiversity.
- The crisis should not be used as a pretext for relaxing environmental standards and objectives. This would give the wrong signal and the wrong incentive. State aid should be provided under the condition that enterprises are also committed to reducing their carbon footprint.
- Disaster prevention should include investment in research on biological risks as well as climate related risks. It should also include investment in health infrastructure, education and training as well as in the production in Europe of vital and essential goods.
- For disaster management lessons should be drawn from the ongoing crisis. Expenditures for a reinforcement of hospital capacities, availability of protective material and medicines should be considered; resources should be allocated to prepare public services, including education and social services, to allow an easy switch to an “Emergency lockdown” mode to make sure that the next crisis does not hit disproportionately the most vulnerable.
- Existing European governance mechanisms should be used to plan a sufficient level of investment in climate policy and protection of biodiversity. In particular with respect to the energy transition, the National Energy and Climate Plans should be instrumental to quantify public expenditure needs.
- The reform of the European fiscal rules is even more urgent than before the crisis. Continuing to apply the present rules will keep down the investments required to meet the European commitments on climate.
- Even after a reform of the European fiscal rules, the public debt and deficit situation of some Member States will probably impose a strong constraint on the level of expenditures that can be dedicated to long term priorities. It is therefore now time to create an instrument to share among the Member States the financing of expenditures serving the European general interest and objectives, in complement of the Community and the national budgets. Such an instrument would combine solidarity with efficiency.
- This could take the form of a European “Fund for recovery, disaster prevention and ecological transition” (EFRPT) to finance or co-finance projects presented by Member States, the EIB or national development banks. The Fund owned by the Member States would borrow on the financial markets. The priorities of the Fund would evolve towards long term priorities as we leave the health crisis behind us. Eligible expenditures would be selected on the basis of agreed criteria after consultation of the European Parliament. Steering committees chaired by the European Commission, including representatives of the Member States with voting rights, and representatives of the EIB and national development banks as observers will be in charge of the selection of projects.
- The loans would be repaid by annual national contributions. A “European” tax, either carbon and/or corporate, could also be envisaged to this end. Because of the urgency, (initial) participation to this Fund could be made voluntary to avoid to be held in hostage



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by small Member States. The Fund would be established only if Member States representing at least 80% of the population of the European Union are prepared to sign on.

- In line with previous suggestion by Greentervention, the still needed reform of the economic governance, including of the fiscal rules under the Stability and Growth Pact, should fully take account of the need to give space over the longer run to public spending in support of climate and biodiversity policies. The EFRPT loans would be not counted under the Stability and Growth Pact relevant public debt and public deficit.
- The reform of the economic governance should include effective steps to fight fiscal and social dumping within the European Union, including consideration for replacing unanimity adoption rules in these matters by an adoption by qualified majority and involvement of the European Parliament, in line with suggestions made in 2018 by the Commission Juncker.

