March 2021

European League for Economic Cooperation
Paris 26 January 2021

“Conditions and modalities of the European recovery in the wake of the COVID-19 crisis”

English Version
Recommendations adopted by the Economic and Social Commission
on 26 January 2021
and by the Central Council of *7th of June 2021*

Executive Summary

Facts:

- The COVID 19 pandemic caused an unprecedented economic crisis (-7.4% for EU GDP in 2020)
- The “Next Generation EU” plan of €750 billion and the national support/recovery plans, added to the ECB’s very flexible monetary policy, are important but miss coordination
- The “Green Plan” and the zero-carbon target in 2050, with a target of -55% of emissions by 2030, are essential elements, but the decarbonation policies of the Member States have yet to be reconciled
- The crisis has changed the way work is organised, with the place - no doubt partly irreversible - taken by teleworking with its consequences
- The future growth of the E U is threatened by weak productivity increases
- Member States spent a lot of money supporting their economies – rightly, but leading to a sharp rise in public debt (more than 100% of EU GDP) and private debt
- Europe’s economic sovereignty is seen as a necessity, but access to resources and extra-territorial sanctions policies are threatening it.

Our proposals:

- Accelerate parliamentary work and the launch of the major joint euroloan so that the funds quickly reach their recipients; better "fit in" with national recovery plans; encourage equity investment in compagnie’s
- Prompt implementation of the objectives of the “Green Plan” through a common decarbonation strategy and the announcement of a legible and increasing price per ton of carbon; this requires ambitious standards and efficient operation of the ETS market
- Make extensive use of “online” work, on a voluntary basis adapted to each profession
- Aim for stronger and healthier growth with a strong focus on investment, innovation and lifelong learning; better reconcile national energy strategies
- Distinguish between the COVID debt, which the ECB should renew at very long-term and low-interest maturities, and the "ordinary" debt, the objectives of which should be redefined (amount, content), excluding in particular productive investment
- Prompt legislative work to ensure EU industrial sovereignty

The Economic and Social Commission of the European League for Economic Cooperation (LECE), met in Paris on 26 January 2021, and discussed the theme "**Conditions and modalities of the European recovery in the wake of the COVID-19 crisis**" with several prominent figures:

- **Marco BUTI,** Head of Cabinet of Commissioner Gentiloni in Brussels;
- **Gilles de MARGERIE,** Commissionner General France Stratégie;
- **Monika FRANK,** Economic Advisor of the Finance Ministry of the German Embassy in Paris;
- **Christian STOFFAES,** Ingénieur général des mines and Economist, French Ministry of Economy;
- **Yves MARTRENCHAR,** Senior Advisor, BNP Paribas Group;
- **Henri STERDYNIAK,** Professor at Sciences Po, member of OFCE ;
- **Nicolas VERON,** Senior Fellow at Bruegel and Peterson Institute for International Economics

I. Facts

1) The continuing COVID-19 pandemic has caused an unprecedented economic crisis since the "Great Depression" of the 1930s throughout the world[1]. For the European Union as a whole, the fall in GDP would be -7.4% in 2020; despite the expected recovery in 2021 – which remains to be confirmed, on the one hand on the basis of the appearance of new virus variants and on the other hand on the basis of progress in vaccination – the 2019 level will not be reached before the end of 2022. Moreover, there is significant divergence between the countries of North and East Europe, where the slowdown has so far been less marked, and those of the South[2].

2) Faced with this crisis, the risk of doing too little is greater than the risk of doing too much. The European Union has responded by adopting a EUR 750 billion Next Generation EU Recovery Plan, financed by both grants and Community loans and supplemented by the adoption of a multiannual budget (2021-2027) of EUR 1 140 billion, with a strong emphasis on environmental ambitions. Its implementation is unfortunately slow, owing both to the unanimity rule for certain aspects of the programme and to the difficulties of certain Member States in meeting the requirements for reform. Member States have also put in place individually considerable stimulus packages[3], but without any coordination. The ECB's consistently flexible monetary policy also plays a crucial role in addressing this crisis.

3) The “Green Plan” adopted by the European Union in October 2020 and further outline by the “European Climate Pact” of December 9 aims to accelerate the post-crisis recovery by implementing an ambitious strategy for a “zero-carbon” economy by 2050. An important step

[1] World GDP lost the equivalent of Belgium’s annual national product by early 2021

[2] The estimated fall in GDP in 2020 was -5.4% in Germany compared with -9.1% in Italy, and more than -11% in both Spain and the United Kingdom according to The Economist; in France it was -8.3% according to INSEE. The European Commission’s current forecast is that Germany will return to the pre-crisis level by 2022, while other EU countries will not return until 2024; the EU as a whole will not return to the 2019 level until 2023.

[3] For example, €57 billion in support in France in 2020 (plus €130 billion in guaranteed loans to enterprises) and €100 billion for the “France Recovery” plan announced for 2021/22; €130 billion in Germany for 2020 and €140 billion in 2021 (8% of total GDP). €223 billion in Italy (11% of GDP); in Spain, measures have also reached 11% of GDP. In total, according to the Commission, the Member States’ budgetary support/recovery measures amounted to EUR 500 billion in 2020 alone.

in this strategy will be the target of a 55% reduction in EU greenhouse gas emissions by 2030.It should be pointed out, however, that an important and necessary road remains to be travelled in order to reconcile the Member States' decarbonisation policies, which diverge sharply to date[4]: maintaining coal-based electricity production or, worse, lignite production in several countries; very discordant renewable energy objectives; opposing approaches to the role of nuclear energy, and unequal approaches to the important subject of the "hydrogen economy" …

4) The crisis has led to major changes in the organisation of work in EU countries, including the considerable, if not dominant, role of remote ("online") work in some service sectors – which sometimes accounted for more than a quarter of working time. Enterprises and employees had to increase the use of this modality considerably during the health crisis, often with good results in terms of efficiency[5]. The previous situation will not be repeated with a presential figure of close to 100%, especially as many employees are looking for teleworking; but this should not exceed two or three days a week, to encourage creativity through informal exchanges and to limit the risk of isolation. Real estate is also heavily impacted: less space needed (up to 20-30% gain), reorganisation of premises for more public spaces. Mobility is probably also affected.

5) At the same time, considerable efforts by both the EU and its member states to boost the economy are aimed at boosting future growth by surmounting the "languor disease" caused by very weak productivity gains[6] (well below those in the US, two to three times lower than in China).

6) To avoid the collapse of their economies, the Member States have spent a lot: the extra costs associated with the pandemic can be estimated at over €1 trillion for the EU as a whole. Combined with a sharp drop in revenue, deficits have increased everywhere, as have public and private debt. The average EU budget deficit in 2020 is estimated at 8.5% of GDP and the average debt is expected to exceed 100% by the end of the year; moreover, the differences between member countries are considerable: the range ranges from 3.6% to 11.7% of GDP for the deficit[7], and from 18.5% to 207% for public debt[8].

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[4] The starting positions of the different EU countries are also very different: for example, in 2019 Germany emitted 663 million tonnes of CO2, or 8 tonnes per inhabitant; Poland 317MT, or 7.63 tonnes per inhabitant; France 317 MT, or 4.6 tonnes per inhabitant; Sweden 44 MT, or 4.4 tonnes per inhabitant.

[5] Companies have found that part of the time saved in transport has resulted in an increase in working time at home.

[6] For example, according to the OECD, labour productivity rose by 1.2% in the eurozone in 2005, compared to 1.7% for the OECD average and 2.6% – more than double – for Korea (figures for China are not available, but can be estimated at at least 4-5% per year). In 2010 and 2015, the years of recovery, it was at the same level (2.5 and then 0.8%) in the € zone and for the OECD, but Korea continues to do much better: 5.1 and 1.4% respectively. In 2018, labour productivity rose by 0.7% in the euro-zone compared to 1.1% for the OECD and 1.7% for Korea. Overall factor productivity has stagnated between 0 and 1% of annual growth in both Germany and France over the last ten years.

[7] The lowest government deficit in 2020 was in Estonia (3.6%) and the highest in Spain (11.7%); according to the OECD, France stands at 9.8%, Italy at 10.7%; in Germany it stands at 5.4% of GDP in the same year; but the government expects to return to 3% of GDP by 2022.

[8] The lowest public debt in 2020 (third quarter figures) was in Estonia (18.5%) and the highest in Greece (207%). At the beginning of 2021, public debt reached 117% of GDP in France and 158% in Italy, 122% in Spain (OECD figures), compared to 75% expected in 2021 for Germany, according to Minister O. Scholz. On average, debt for the eurozone would be 104% of GDP in 2021.

7) The question of economic sovereignty had already arisen in recent years, owing to Trump's US policy and Chinese expansionism, even before the European Union's "Next Generation" stimulus package. The very notion of economic sovereignty would have to be clarified. At any rate, it faces many obstacles: countries' interests are different; the EU's commitments reduce its room for manoeuvre; the extraterritoriality of some countries' criminal laws and the multiplication of economic sanctions distort the rules of the game; technological power relations create competitive gaps; and difficult access to key resources such as rare lands does not work for Europe. In this context, the EU established four major axes: industrial sovereignty, digital transformation, energy transition and justice/protection.

II. Propositions

Wishing to make its contribution to the elaboration of strategies to strengthen and develop the measures to combat the recession and relaunch the European Union, our Commission makes the following proposals:

1) The EU's €750 billion stimulus package is slow to materialize and the "Hamiltonian moment"[9] that the EU hopes for may dissipate. We must take advantage of the opportunity offered by this first stage to take the next step in moving towards a more balanced union between the two pillars, monetary and fiscal, particularly in fiscal matters – which implies putting in place policies for structural reforms and European spatial planning. The European Parliament and the national parliaments, which must ratify the instrument, should speed up their work; and preparations for the major joint European loan should proceed without delay. It should be stressed that until the planned funding is actually disbursed, support for enterprises and economies will be lacking. It would be useful to establish streamlined and expedited procedures for the examination of cases and the payment of funds. Moreover, much work remains to be done to "fit in" the national and European recovery plans to avoid both duplication and omissions. Finally, our Commission stresses that both national and European measures to support the equity of enterprises and the effective implementation of the Union of Capital Markets should given high priority.

2) The European Climate Change and Biodiversity Programme ("Green Plan") is expected to be reinforced by the "Conference of the Parties" in Glasgow at the end of this year and to contribute to its success. However, it remains essential to achieve the stated objectives. To ensure that these objectives are met, a genuine common decarbonation strategy and a more efficient functioning of the current carbon market (ETS[10]) must be put in place. In this respect, it is essential to establish a clear and increasing reference price for a tonne of carbon (with compensation for the poorest), and to set up an operational mechanism for adjustment at borders. It is also important to continue setting ambitious standards for polluting emissions, recycling and waste management, and the protection of natural spaces and wildlife.

[9] The reference to Hamilton, one of the great founders of American federalism, can be supplemented, as Mr Buti pointed out, by a reminder of the "White Paper" presented in 1993 by J. Delors, then President of the European Commission; it is therefore also a "Delorian moment".

[10] ETS: European Trading Scheme. The over-generous allocation of allowances (initially free) has deeply depressed this emissions trading market for years; the price per tonne of CO_2 has now risen to around €35, a level that is still low but is beginning to have a significant impact on companies' investment choices; this level should be gradually but substantially raised to €100 per tonne by 2030.

3) The organisation of remote work, which is now much more often the norm, must take place as close to the ground as possible in each enterprise, based on a decentralised social dialogue. Increased use of remote work, adapted to each occupation, can contribute to improving the productivity and efficiency of enterprises, provided that the necessary organisational changes are made and that some flexibility is maintained. The principle of voluntary action is key. Each company must be able to set a level appropriate to its activities and its management model. However, attention must be paid to the risk of isolation and the weakening of the link with the company in the event of excessive use of telework: the management model must evolve towards greater trust, autonomy, accountability and collaborative work. Employees whose accommodation is not suitable for remote work should not be forgotten; consideration should be given to the use of third places, internal or external to the enterprise, close to their home.

4) Overcoming the crisis and restoring stronger and healthier future growth will require major changes in approach, which are reflected, but only partly, in the national and European recovery plans already adopted. Achieving solid growth requires higher levels of productivity gains comparable to those of the best performing economies. All EU countries need to be competitive without creating excessive balance of payments surpluses.
The declining demography of many European countries means that this will only be possible by placing a much stronger emphasis on investment, innovation and, above all, lifelong learning to meet the new needs of the economy. The new prospects opened up by the "hydrogen economy", automation, data science, all-electric power, nanotechnologies, digital technologies, telecommunications, micro-electronics, and biotechnologies are very promising if we know how to capture them. Secondly, the opportunities opened up by economic conversion to climate and biodiversity, on which the European Union is at the forefront, offer the possibility of a rebound with the development of new activities and new jobs. In the context of the "Green Plan" and the goal of a "zero-carbon" economy in 2050, it is important to clarify and better reconcile the currently divergent energy strategies of member countries: fossil fuel output, all-electric priority, hydrogen economy, etc. The necessary conversion of sectors which are also polluting or destructive of biodiversity must be accepted and accompanied.

5) As regards the debt due to the COVID-19 crisis, the question of its outright cancellation has been raised and is the subject of vigorous debate in some countries. It may be technically possible to cancel the part of the COVID debt that has been taken over by the European Central Bank (ECB), as the ECB no longer has private holders who might be deprived. However, such a write-off in the ECB's accounts would not in reality change the burden of interest on the state budget, and would only damage the credibility of central banks; it would also pose insurmountable legal, logical, and, above all, political problems. It is therefore unnecessary to dwell on this approach.
On the other hand, it seems possible and even desirable that this part of the COVID debt should be repaid only at a later date, either by renewing it at the earliest dates or by replacing it now with a very long-term debt at low rates. With regard to the rest of the debt of States, we believe that it is necessary, if only for educational purposes, to maintain a firm objective of reduction; but maintaining the 60%-of-GDP ceiling set at Maastricht would, under the current circumstances, require disproportionate austerity efforts that would generate unemployment and deflation. We therefore propose to redefine the debt ceiling, both in terms of amount and content, excluding productive investment that increases productive capacity or potential growth, or contributes to the energy transition.

6) Industrial sovereignty covers a wide range of sectors, from raw materials to health, including payments and data trades, and defence. The major European legislative work to be carried out

on the main priorities of climate, protection of biodiversity and the digital transition, each with its own sovereignty component, must be advanced without delay in order to achieve the target announced by the end of 2022. The industrial plan, the method of financing, the modalities and the criteria for evaluating in terms of sovereignty for the allocation of funds all remain to be determine. But the key issue for Europe will still be the development of as well as the maintenance and protection of knowledge through innovation. Beyond that, it is a broader question of the real will of the Union, nations and peoples.

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