transform! europe

www.transform-network.net

eDossier

June 2021

Economic Anti-Crisis Measures of EU Member States after the Outbreak of COVID-19 in 2020

Economic Anti-Crisis Measures of EU Member States after the Outbreak of COVID-19 in 2020

TABLE OF CONTENTS

Introduction: What have our states done in 2020 to support their economies?, by *Roland Kulke* *3*

Spain: The Case of a Centre-Left Coalition Government, by *Eduardo Sánchez Iglesias* *6*

Italy: Leaving industry alone, by *Matteo Gaddi* *23*

Greece: Attacks on Workers and Environment, by *Eleftheria Angeli* *53*

Portuguese Government defensive actions, by *Mauricio Rezende Dias* *62*

Czech Republic: An Economic Colony without a Plan for National Development, by *Ilona Švihlíková* *71*

Polish Government: Letting its people and its SMEs down, by *Michał Menes* *80*

Ireland: Selling the Country to the Highest Bidder, by *Emma Clancy* *88*

France: Supply Side & Technology – Sovereignty for the Few, by *Pauline Debanes* *99*

Germany: Money as a Substitute for a Plan, by *Michael Schwan* *109*

European Union strategies to tackle the economic impact at the outbreak of the COVID-Crisis, by *Matteo Gaddi* *122*

IMPRINT

2021

transform! european network for alternative thinking and political dialogue

Square de Meeûs 25

1000 Brussels, Belgium

transform! europe is partially financed through a subsidy from the European Parliament.

This work by transform! is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License. Permissions beyond the scope of this license may be available at office (at) transform-network.net.

Layout: sanja.at e.U.

Cover illustration: Mediamodifier from Pixabay

Introduction: What have our states done in 2020 to support their economies?

*By **Roland Kulke**, PhD in political science, is facilitator for the "productive transformation" working group of transform! europe as well as the representative of transform! europe to the EU institutions in Brussels.*

If you speak about economic crises in Europe the other person who is listening to you will often react by lifting her or his eyebrow and ask you: "sorry, which crisis do you mean in particular?"

Europe certainly has evolved as being a crisis-ridden continent. That does not mean that other parts of the world are better off, but we surely could do better. After the self-inflected harm after the post-Lehman Brothers crisis in the 2010 years, the economy in most of the EU member states (MS) at least gained some track in the last years. However, this mild economic recovery was not accompanied with rising mass income – poverty prevails in large parts of our communities and large sections of our welfare states have be grinded by the Troika.

Only in certain pockets of the continent, like in Germany, trade unions were able to compensate for parts of the accumulated losses of the last decades. Over the years, "the crisis" turned into "the crises", a truly multiple crisis of our civilisation. The youth successfully reminded the elder generation that physics also rule economics and that the planetary boundaries are not open for negotiation. After decades of mobilisation for a sustainable economy the climate movement really advanced and could turn at least parts of the public, if not yet the necessary legislative processes.

Just in this moment a zoonotic event happened somewhere in China, but it could have happened anywhere in the world. A virus mutated and found a new host: the human body. The story afterwards is well known and often told.

In Europe, the virus was perceived as "Chinese problem", not ours. We went to church, we had our carnival parades and of course: our football games. We made it easy for the virus to find a new home in Europe. We were surprisingly hospitable to this new being. When the people died in hundred, and then in thousands, the capitalists and their politicians, like in large parts of Northern Italy, kept the profit accumulation process ticking. Every morning people were forced to go to work, unprotected.

And thus the near economic breakdown came to europe. People dying is one thing for the elites, but having the profit accumulation interrupted is another one, especially if it effects hegemonic capital factions. Angela Merkel was very attentive when she was told that VW alone imports on a just-in-time basis 20.000 pieces alone from North Italy and Spain for its assembly lines in Germany. The conservatives and neoliberals had to understand: This times it's different. This time there is no chance wielding the austerity blade and cut down investment, pensions etc – at least not for the time being. First and foremost on the agenda of the ruling classes was: safe the single market. That was their primary common interest. As this interest was so strong, other high ranking interests were sacrificed.

Europe saw the return of the strong state, a state which intervenes with heavy hands in the economy, buys shares of the "strategic firms", shut down whole economic sectors, imposing export bans etc pp. Most importantly: the old mantra of "you can spend every Euro only once" was forgotten. The states rushed to the markets and borrowed heavily, the national debt went through the roof with vengeance.

Quick action was necessary, and therefore observers of the European integration process were able to see clearly, what the EU basically still is after decades of integration: a large common market in favour of national capital factions, still rooted in national social formations.

What we saw was that when urgent action was needed there was not a rush to common action, but to react fast, the MS of the EU decided it would be better to engage in a process of dismantling two the core rules of the EU. First of all the neoliberal heart of the EU was suspended, the rules that states are not allowed to spend as much money as they want (Stability and Growth Pact), and the second that they are not

allowed to support their own economies as they deem right (state aid rules). If we speak in this regard of an EU reaction, it was an international, not a supranational reaction.

There was but one outstanding successful common answer. The EU financed SURE program supporting the national labour markets in a common solidarity approach. The SURE program surely is a good example of what could be achieved when the MS act in solidarity. MS are able to receive loans from the EU to support their supporting short-time work schemes, the whole program has a volume of € 100 bn. Nevertheless, SURE was the exemption in 2020. The rule was rather suspending common rules, not building up common action. One has to admit that in part this was a rational decision, because the EU is not ready to act in a truly anti-cyclical way.

Even if the question of whether the EU is doing enough against Corona and the downturn dominates the debate, we must not overlook the much wider multiple crisis. The Corona crisis is the result of the permanent transgression of the planetary boundaries by the capitalist system based on access to the two central resources: labour and nature.

The over-exploitation of nature led to the Corona virus, which is a so-called zoonotic moment, i.e. the jumping from animal to human as a new host.

Hence, it has to be clear that states must not only take care of the economy, but must take care of the question of planetary boundaries, too. The challenge our societies have to deal with in the current crisis therefore is the over-exploitation of nature and human beings by capitalism.

This whole crisis is overdetermined in relation to its gender aspect. This crisis is a "contact-crisis", that means inter-personal relations need to be stopped, due to the airborne virus. Our society presses particularly women (and migrants) in these service jobs. Hence, we can see a disproportionate rise in unemployment with women. Additionally the "gender trap" also snapped shut in the unpaid work at home were suddenly also schooling needed to be done, as states were unwilling to provide e-schooling for their children.

The reaction of the MS and the EU in 2020, the first year of the crisis, led to some good results, at least regarding the rise of unemployment. Contrary to what is often claimed, states are by no means helpless in the face of new developments.

That is why we focused on finding out "what makes our states tick – what are they aiming at?"

At that time of the reorientation of the national economic policies, transform! europe commissioned studies on a sample of MS, representing different polit-economic settings in the EU, representing centre and periphery and also the different regions in the union. We invited scholars from all these countries via a public call for papers.

Our questions mostly clustered around three sets: the impact on workers and citizens, a forward-looking industrial and economic policy, and the impact on the climate.

Are the MS of the EU able to implement social policies that help people, the environment but also their own economy? Are our states able to act in the interest of their own people, for the working masses, or do they act in the sense of international capital without visions for an independent development that pays attention to meaningful cooperation with other states?

The central questions we asked:
We will provide here only small, but symptomatic examples here. Where and how is the money spent? Does the money create new jobs in new industries, and are old industry "made fit" for the future? Or, on the contrary, does the money flow abroad for "gadgets" that may look good but do not promote the socio-economic transformation. Italy is a sad example here. The Italian government now wants massively to promote the purchase of battery-powered cars, but because of the failure of Italian industrial policy in last decades, Italy does not produce these cars. So, money will flow to countries that produce these cars.

Another question was: Can we see a change of path towards a more climate-friendly economic policy? The example of the Czech Republic is interesting here. The Czech government does not at all seem to have understood the urgency of environmental policy. The author of our report points out, however, that there are approaches to greener economic management in the government's plans. However, these parts of the programme were inserted with explicit reference to the expectations of the European Commission. A crazy world indeed, in which environmental protection measures have to be justified by referring to the Commission.

Crisis are times of falling prices, over-indebted companies loose value. It is clear that in these times international capital likes to go on a "shopping spree" to take over these under-valued companies. Our question here was whether the states have developed measures to prevent foreign takeovers. Greece offers a cautionary example of the destructive influence of EU policies. The onslaught of the Troika in the 2010s led to forced sales of Greek property to foreign capital. The current conservative government sees itself as the loyal heir to these policies and is right now actively privatising for the benefit of foreign capital. To make matters worse, this policy is then sold to its citizens as part of the research and development policy.

Our question about public ownership, and whether states want to play a more active role in the economy was largely answered in the negative in the studies. Germany sets the tone here with its excessive promotion of Lufthansa. The state is now a large shareholder but deliberately does not want to impose conditions or intervene in the management of the company in the interest of the common good. The private shareholders of Lufthansa thanked the taxpayer and announced 20,000 redundancies after receiving the financial support.

Another worrying finding of our studies is that trade unions were hardly involved at all in the development of the rescue plans, and thus not in their monitoring. This is not a marginal point, because the days when technocratic governments, even if well intentioned, could make policy in back rooms must clearly be over in the era of post-democracy.

Some demands we can draw from these studies:
First of all, it is clear that a private sector that is subsidised by taxpayers' money but serves private interests will not lead us out of the crisis. The only way to end the Corona crisis is through massive vaccination, worldwide. That means: we have to build up public health sector enterprises that produce enough vaccine for the whole world.

The demands of the left for an end of the Stability and Growth Pact have been met (at least for the time being). And, hold your breath – it is working, the states are investing, the economy is doing better than with this pact. It is clear that this pact must never be used again in its original form.

To the question of the resulting national debts, we answer with the words of Heinz Bierbaum, president of the European Left Party: "Debts can also be cancelled."

What is also evident, however, is that public intervention in the economy cannot be done without at least a certain coordination at the EU level. The dismantling of state aid rules led to a "competition of subsidies", and Germany won. In some cases, more than half of all state aid paid in the EU went to German companies. It shows: a simple dismantling of common EU rules, a shifting of responsibility back to the national level can also lead to the rich getting richer and the poorer getting poorer. Against deep pockets of some states, only a common politization of the process can help.

The European Central Bank was, as so often, "the last man standing", the only institution that could act in a targeted and supportive way. That is good, but not good enough. For we remember that the ECB has already toppled several governments in the EU, and pressured governments in dismantling their welfare states. The letters from Frankfurt am Main are especially feared in the southern European capitals. So we need an ECB that is both democratically supervised and politicised. The times when inflation orientation was the measure of all things for this unspeakably powerful institution must be over.

Last not least: To enable the transition to an economy that is within the physical limits of our earth, we need job guarantees. Only then can we create a society that is optimistic about the future and no longer afraid.

Our findings are just another step in transform europe's attempts to understand the political field of the European integration process better. First of all, we can see that there are huge differences in the behaviours of the countries, according to which party family is in the government. From the left / centre left government in Spain to right wing governments, we can see clear differences. But, we also see the particular challenges of smaller states vis-à-vis bigger states, which have the advantage of a stronger industrial base (in theory). What we also see is that resistance pays off. The coordinated strike of the train workers in December 2019 forced the neoliberal Macron government to invest heavily in the whole train system in France, according to the plans of the 2020.

We learn from the French colleagues: "On lache rien"!

Spain: The Case of a Centre-Left Coalition Government

*By **Eduardo Sánchez Iglesias**, Professor of Political Science and Sociology at the UCM where he teaches Political Geography and Geopolitics. He is the author of several books on economics and a contributor to the press, being the author of the Opinion Blog The loneliness of the long-distance runner in the digital newspaper Público.*

INTRODUCTION

The situation caused by the COVID-19 virus has revealed the collective system's frailties resulting from the continuous attacks of neoliberal policies that have caused labour rights atomisation, public service reductions, the science and technology sector's weakening, and the country's de-industrialisation.

These realities explain the causes of the depths of Spain's social and economic crisis, and the challenges that must be faced by a country with a badly damaged social State and productive base. These realities are faced by a Government to which for the first time since eight decades a strong group of radical left parties and ministers belong.[1] The first coalition government in Spanish democratic history following the dictatorship has been formed, with social policies that stand as a legitimising element in a context of social and political crisis, and an opposition that includes the extreme right as a third political power.

The purpose of this report is to analyse the content, scope, and characteristics of the economic stimulus programmes implemented by the Spanish Government within the context of the crisis resulting from the emergence of the coronavirus. Its intention is not only to offer a relevant and descriptive study, but also to analyse the measures adopted in terms of the structural realities of a country that is defined by its production model, over-specialisation in tourism, high rates of job insecurity and unemployment, and levels of social inequality that are above the European average.

The economic plans implemented during the crisis are backed by public financing that is without precedent in recent decades, reaching €72 bn. for 2021. According to the Government itself, this backing does not only have the short-term intention of facing the most immediate effects of the crisis, but also aims to lay out a path towards the country's productive transformation and recovery in line with the challenges posed by technological change (digitalisation), energy transition, and sustainability[2]

In order to meet these goals, the report adopts a qualitative methodology based on an analysis of the impacts, linking the stimulus measures with their ability or inability to propose substantial change to the orthodox economic policies that have been predominant in EU countries till now. This research is carried out in five sections in addition to this investigation.

The first section will address the basic characteristics of the Spanish economic model, followed by a second section studying the impact of the economic crisis in Spain during the health crisis, which leads to a third chapter analysing the measures and plans implemented under what is known as the Escudo Social ("Social Shield"), then a fourth section presenting an analysis of the impact of said measures, before finishing with a conclusions section.

1 Pablo Iglesias, former Deputy Vice-President and Minister of Social Rights and Agenda 2030 (Podemos), Irene Montero, Minister of Equality (Podemos), Alberto Garzón, Minister of Consumer Affairs (Izquierda Unida), Yolanda Díaz, Minister of Labour and Social Economy (Izquierda Unida, En Común-Unidas Podemos Galicia), and Manuel Castells, Minister of Universities (En Común Podem, Catalonia).

2 Statement from the Prime Minister of Spain, Pedro Sánchez, in the Plan de Recuperación, Transformación y Resiliencia de la Economía española, Madrid 07/10/2020. Available online: https://www.lamoncloa.gob.es/presidente/actividades/Paginas/2020/071020-sanchez_plan.aspx

CHARACTERISTICS OF THE SPANISH CAPITALIST MODEL: A NATION OF TOURISM AND JOB INSECURITY

At the outset of the 2008 economic crisis, Spain was searching for a pathway towards insertion into the global capitalist system that did not depend on technology and industrial sector work productivity, opting for a low road based on the stagnation of real wages as a key competitive factor.

The reorganisation of production resulting from the 2008-2015 crisis meant shifting importance away from construction and real estate sectors supported by domestic demand in favour of an over-specialised tourism sector and an associated services sector oriented towards foreign demand.[3] These efforts pursued a dynamic of setting prices protected from the risk of international competition, where Spain maintains major payment balance deficits. This is the case for industry and economic sectors of high or medium technological intensity, for which public policy was chosen to increase tourism offerings[4] and reduce labour costs.

The internationalisation of Spanish capital arose as a response to the crisis and exhaustion of the developmental model of the 1970s. The process of internationalisation established a new context of culmination marked by Spain's incorporation into the EU, thus concluding the Spanish economy's slow process of internationalisation that began in the 1950s.

Spain's incorporation into the EU supposed a transformation to the production structure, which took on the heavy loss of the industrial sector, and the control thereof by foreign capital, as one of its central components. The main characteristics of this process were as follows:

1. A significant reduction in the industrial sector producing final goods with high added value, which began to be imported.
2. In terms of industries producing intermediate goods, they began to be acquired by foreign capital on a massive scale, which were then integrated into transnational production chains as subsidiaries.
3. The industrial base was subjected to a major reduction of installed capacity.
4. Mainly, the industries that were expanded were the most polluting (chemical), those associated with locally produced components (food), or those that were heavily transnationalised, mainly the automotive industry, which become the leading industrial branch in Spain, specialising in the assembly of short series of light, globalised production.
5. The branches with the highest degree of technological content, such as IT and office machinery, and electronic or electrical machinery, showed an elevated degree of external despecialisation and heavy dependence on imports.[5]

As a result of the aforementioned, the health crisis has a more profound economic impact on Spain than it does on the rest of the EU, stemming from Spain's greater reliance on the sectors most sensitive to restrictions on mobility and social contact, such as tourism, as well as those sensitive to global supply chain interruptions and a collapse of consumer demand, such as the automotive sector.

Tourism deserves particular attention, as the sector represents 12.4% of Spain's GDP and 12.9% of total employment, making it a determinant factor of payment balance stability.[6] Spain is the world's second greatest tourism powerhouse in terms of the number of tourists (behind France) and income (behind the United States), as well as the first in terms of competitiveness. Likewise, recent years have

3 Ramiro, Pedro and González, Erika (2019): *A dónde va el capitalismo español*, Traficantes de sueños. Available online: https://www.traficantes.net/sites/default/files/pdfs/TDS_UTIL_CAP_ESPA_web.pdf

4 Of note are the policies favouring holiday rentals, tourist accommodations, and hotel construction, increasing supply by 14% since 2015 according to the Instituto Nacional de Estadística (INE).

5 Arriola, Joaquín; Gómez Gil, Carlos and Andrés, Xabier (2008): *El impacto económico de la inmigración extracomunitaria en la Comunidad Autónoma de País Vasco*. Servicio Central de Publicaciones del Gobierno Vasco, Bilbao. Available online: http://www.ehu.eus/Jarriola/Impactoinmigracion.pdf

6 Instituto Nacional de Estadística (2020): *Cuenta satélite del turismo en España 2019*. Available online: https://www.ine.es/prensa/cst_2019.pdf

continued to point towards a positive change, with the average expenditure per tourist reaching record figures in 2019.[7] In terms of its insertion into the global market, Spain's tourism sector has experienced major internationalisation with the 2008 crisis, with the ever-increasing presence of foreign telephone operators (links of the chain that generate the most added value), and a specialisation in the links of the global value chain closer to the final product (with less added value), as Spanish companies are specialising in destination work such as accommodation, domestic transport, and activities associated with entertainment and dining.[8] Restrictions on mobility and social contact have brought on a contraction, with estimates that show the sector providing 3% of total GDP in 2020, as well as the destruction of nearly 259,000 jobs.[9]

The automotive sector plays a strategic role in the Spanish economy, representing 10% of the national GDP and standing as the main sector responsible for innovation and technological change in the nation's economy, with an export capacity behind only the food export and tourism sectors. Reaching 19% of the total, the automotive sector employs 650,000 direct workers and nearly two mio. indirectly (9% of the total), positioning itself as a key sector for sustaining the balance of payments.

Spain is Europe's second largest manufacturer after Germany (manufacturing more cars than France, Italy, and Great Britain), and the third largest manufacturer with one of the most valued ancillary industries. In 2020, this strategic sector closed with a 36% drop in sales[10], as the crisis affected 30% of the country's companies. Adding to this is the fact that Spain's 17 manufacturing plants are foreign owned, meaning that decision-making centres are located outside the country, which leaves the nation's plants particularly exposed to closures, as was the case with Nissan announcing the closure of its plant (June, 2020).

The elevated seasonality of an economy dependant on tourism and the services sector, together with sustained low labour costs as a competitive strategy, explain why the cycles of crisis lead to labour adjustment. As such, Spain has lost more employment than any other EU country, destroying 622,000 jobs in 2020 and increasing joblessness by 527,900 unemployed in the last year. Total unemployment has reached 3.71 million, representing 16.13% in terms of percentage.[11] These figures place Spain before the harsh reality of one of Spanish democracy's major unresolved issues: the labour market, which has had an average unemployment rate of 16.5% since 1980.[12]

THE ECONOMIC EFFECTS OF COVID-19 IN SPAIN

Spain is one of the countries most affected by the pandemic on a global level, which explains how the policies implemented in terms of individual lockdowns and limitations on the economy and mobility are some of the world's most restrictive.

The objective of the limitations on economic activity and the confinement of the population has been developed in two phases that were well defined in terms of management's leading role in the crisis. In the first phase, the State's General Administration and the Central Government were the protagonists managing the crisis and implementing measures that lasted nearly 100 days in Spain,

7 Instituto Nacional de Estadística (2020): *España en cifras 2019*. Available online: https://www.ine.es/prodyser/espa_cifras/2019/

8 Fundación BBVA (2020): *La competitividad española en las cadenas de valor globales* (Chapter 2). Available online: https://www.fbbva.es/wp-content/uploads/2020/02/DE2020_Cadenas_Valor_Globales_Ivie_web.pdf

9 Banco de España (2020): *El impacto del COVID-19 en la economía española*. Consejo General de Economistas. Available online: https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/IntervencionesPublicas/Gobernador/hdc010720.pdf

10 Dirección General de Tráfico (2021): *Matriculaciones de vehículos en España 2020*. Available online: https://anfac.com/wp-content/uploads/2021/01/Informe-CCAA-Matriculaciones-FFEE-Diciembre-2020.pdf

11 Instituto Nacional de Estadística (2021): *Encuesta Población Activa, cuarto trimestre 2020.* Available online: https://www.ine.es/daco/daco42/daco4211/epa0420.pdf

12 See: https://elpais.com/economia/2021-01-28/espana-destruyo-622600-empleos-y-la-tasa-de-paro-aumento-hasta-el-1613-en-el-ano-de-la-pandemia-de-coronavirus.html

from 14 March[13] to 21 June, with a gradual reduction in severity starting on 27 April (known as the *desescalada* or "de-escalation"). In the second phase, said leading role fell on the Autonomous Communities and their governments within the general framework dictated by the Central Government in the State of Emergency passed on 25 October 2020, and extended to this coming 9 May 2021.[14]

The lockdown measures taken in Spain starting in March have resulted in a profound disruption to supply and demand, which represents a substantial reduction in company and worker income. The consequences of the restrictions implemented by economic authorities in other countries must also be added to the impact described; in particular, those associated with the interruption of global value chains that are altering international trade[15], as well as the suspension of activities that pose a greater risk of transmission (travel, transport, restaurants, leisure, and tourist accommodations). These measures gravely influence the two pillars of the Spanish economy: the automotive and tourism sectors, the two economic branches with the greatest influence on Spanish GDP. The sum of the effects from one of the world's most restrictive lockdowns, together with the impact on an economy dependant on tourism and industrial activities such as assembly and logistics storage, explain why Spain is the country most affected by the crisis alongside Italy (Table 1).

Table 1. Impact of COVID-19 on GDP

	2020	2021
Germany	-6.5	5.9
France	-8.2	7.4
Spain	-9.4	6.3
Ireland	-7.9	6.1
Italy	-9.5	6.5
The Netherlands	-6.8	5.0
Portugal	-6.8	5.8
The United Kingdom	-8.3	6.0

Source: European Commission.

However, the economic impact of the health crisis is not explained solely by circumstantial factors, but rather the special intervening structural factors that make Spain a unique case within the EU. We will highlight four key factors:

The first, as previously analysed, relates to the Spanish economy's over-specialisation depending heavily on the tourism sector and, together with its entire associated services sector (restaurants, commerce, transport, leisure, tourist accommodations, and the residential real estate sector), constitutes the nation's true economic engine[16], which has been particularly affected by restrictions on mobility and social contact. Together with the aforementioned, the automotive sector had already been experiencing a major crisis due to technological transformation and the move from manufacturing diesel vehicles (the speciality of Spanish assembly plants) to electric ones, affected by the drop in domestic demand in countries such as France, Germany, and Italy (their leading markets). The sector was subject to major limitations as decision-making centres are located abroad[17], leaving Spanish factories highly exposed

13 See Royal Decree 463/2020, dated 14 March 2020. Available online: https://boe.es/buscar/act.php?id=BOE-A-2020-3692

14 See Royal Decree 926/2020, dated 25 October 2020. Available online: https://www.boe.es/eli/es/rd/2020/10/25/926/con

15 The World Trade Organization (WTO) forecasts that the global trade of goods will fall by between 13% and 32%. See the WTO Annual Report for 2020, available online: https://www.wto.org/spanish/res_s/publications_s/anrep20_s.htm

16 See Instituto Nacional de Estadística (2020): *España en cifras 2019*. Available online: https://www.ine.es/prodyser/espa_cifras/2019/

17 In Spain, all automotive factories are subsidiaries of foreign translational companies, mainly the French group PSA (Peugeot, Citroën, Opel) and German VW that, together with North American multi-national Ford, French Renault (NISSAN and Volvo), and German Mercedes, dominate the automotive industry's assembly plants and ancillary industry in Spain.

during times of uncertainty[18], technological changes, and nationalistic relocations[19], with the announcement of Nissan's plant closure (June, 2020) standing as a revealing example of the sector's crisis in Spain.

Secondly, we find another factor of vulnerability, which is the severely reduced average enterprise size linked to the Spanish economy's specialisation in tourism and real estate. In Spain, 55% of companies do not have salaried employees, with 95% of those that do being micro-enterprises (fewer than 10 workers). Micro-enterprises and the self-employed have a fragile financial structure and little ability to secure financing, which means that a halt in activity would place them at direct risk of survival.[20]

The third vulnerable flank — and one that is most well-known — is the large proportion of temporary contracts in the labour market. This facilitates an exaggerated unemployment reaction to each crisis as it adjusts itself immediately through quantity. In times of crisis, the Spanish economy's main adjustment mechanism is unemployment and the reduction of salaries.[21]

Lastly, a fourth aspect of the Spanish economy's structural weakness that represents severe limitations should be noted, this one related to the low fiscal pressure in Spain, which explains the limited support provided for worker or company income in Spain when compared with that offered by the governments of Germany or France.[22] The reduced fiscal pressure, together with the consequences of the financial sector's bailout financed by public resources, explains the considerable financial imbalance suffered by the Spanish economy, connecting its economic growth to its external debt capacity and forcing the Public Treasury to ask international financial markets for a sum of €300 billion (25% of Spanish GDP) last May.

According to estimates from the Bank of Spain[23], the structural deficit (which does not depend on the cycle, but rather the capacity of ordinary revenue to finance planned expenditure) has been getting worse since 2014. Last year, in 2019, the entire deficit (2.8% of GPD) was already structural. Public debt will also not have reduced significantly, remaining near the symbolic figure of 100% of GDP. Here we find the starting point before the drop in revenue caused by the reduction in activity following the lockdown, and the increased expenses of the measures being adopted.

All of this being considered together points to an extremely negative economic forecast for Spain in 2021, as can be seen in Table 2.

The dimension of the crisis and the gravity of the health situation, together with the precedents of the previous crisis and the negative social consequences of the adjustment policies implemented by the governments of José Luis

18 See Report from the Asociación Nacional de Fabricantes de Automóviles y Camiones, ANFAC (2021): *Automoción 2020-40 Liderando la movilidad sostenible*. Available online: https://anfac.com/wp-content/uploads/2020/03/Informe-Ejecutivo-AUTO-2020_40-ANFAC.pdf

19 In terms of France, see: The Ministry of the Green Transition, the Ministry of the Economy, Finance, and Recovery, and the Deputy Minister Responsible for Industry (2021): *France Relance. Réunion du Comité stratégique de la filière automobile*. Available online: https://www.conseil-national-industrie.gouv.fr/files_cni/files/csf/Automobile/360_dossier_de_presse_reunion_du_comite_strategique_de_la_filiere_automobile.pdf; for Germany's case, see the Federal Ministry of Economy and Finance (2020): *Wirtschaftsbranchen: Automobilindustrie*. Available online: https://www.bmwi.de/Redaktion/DE/Textsammlungen/Branchenfokus/Industrie/branchenfokus-automobilindustrie.html?cms_artId=244338

20 In terms of sector composition and size, legal composition, by salaried employees, and provinces in Spain, see: Instituto Nacional de Estadística (2019): *Directorio Central de Empresas*. Available online: https://www.ine.es/dynt3/inebase/es/index.htm?padre=51&dh=1 and for 2019 data (the latest published), see: https://www.ine.es/prensa/dirce_2019.pdf

21 In terms of the loss of salaries in Spain, see: Banco de España (2020): *Tendencias laborales intergeneracionales en España en las últimas décadas*, Artículos analíticos, Boletín económico 2/2020. Available online: https://repositorio.bde.es/bitstream/123456789/12601/1/be2002-art16.pdf

22 Fiscal pressure measures the ratio between the sum of taxes and social contributions and the GDP, which sat at 41.1% in the EU and 41.6% in the Eurozone in 2019. By country, France registered the highest fiscal pressure with 47.4% with regard to its GDP, followed by Denmark with 46.9% and Belgium with 45.9%. Spain sat below the European average at 34.4% of GDP, the same fiscal pressure as in 2018. See: OECD (2019): Base de datos global de estadísticas tributarias. Available online: https://www.oecd.org/tax/tax-policy/base-de-datos-global-de-estadisticas-tributarias.htm

23 Banco de España (2020): *Informe anual (2019)*. Available online: https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesAnuales/InformesAnuales/20/Fich/InfAnual_2020.pdf

Rodríguez Zapatero (social democratic PSOE, 2004-2011) and Mariano Rajoy (conservative PP, 2011-2018), explain the exceptional economic decisions that the current Spanish Government has made.

Table 2. Forecast impact of COVID-19 on GDP in Spain. Alternative scenarios

	2020	2021
Spanish Government	-9.2	6.8
Bank of Spain (first scenario)	-9.0	7.7
Bank of Spain (second scenario)	-11.6	9.1
Bank of Spain (third scenario)	-15.1	6.9
IMF	-12.8	5.9
European Commission	-9.4	6.3
OECD	-11.1	7.5
Average	-11.2	6.3

Source: The Spanish Ministry of Economy, the Bank of Spain, the IMF, the European Commission, and the OECD.

THE *SOCIAL SHIELD*. THE SPANISH GOVERNMENT'S RESPONSE TO THE ECONOMIC CRISIS: FISCAL, SOCIAL, LABOUR, AND ECONOMIC MEASURES

The Spanish Government groups all economic policy actions and plans to alleviate the social and economic consequences derived from the health problem behind the *Social Shield*. These measures include initiatives taken by the Governing Council on 31 March 2020[24], with the approval of the first fifty measures themselves referred to as the *Social Shield*, along with the latest measures adopted in favour of the tourism, hospitality, and commercial sector on 28 December.[25] Said measures were inserted into the expenditure line items of the General State Budgets (2021), approved on 22 December and in effect since 1 January 2021.

The main objectives of the *Social Shield* were aimed at guaranteeing business activity, supporting strategic productive sectors, sustaining employment, and covering the most disadvantaged members of society though a collection of measures addressing four areas: priority productive sectors, measures geared towards self-employed workers and companies, actions meant to sustain employment, and measures to benefit vulnerable groups. These measures target the same areas as other European countries, although each to a greater or lesser degree as permitted by their respective public resources (Table 3).

24 See Royal Decree-Law 11/2020, dated 31 March, through which complementary emergency social and economic measures are adopted to face COVID-19. Available online: https://www.boe.es/buscar/act.php?id=BOE-A-2020-4208

25 See Royal Decree-Law 35/2020, dated 22 December, on emergency measures to support the tourism, hospitality, and commercial sectors, and provide assistance in terms of taxes. Available online: https://www.boe.es/buscar/act.php?id=BOE-A-2020-16823

Table 3. A comparison of the economic measures adopted by the governments of Italy, France, and Spain to fight the coronavirus.

Measures	Spain	Italy	France
Resources mobilised	€200,000 M (including €83,000 M in private funds)	€350,000 M	€345,000 M
In % of GDP	20%	20%	12%
Employment	Everyone dismissed with a temporary lay-off scheme will receive unemployment. Unemployment received for the duration of this situation will not be deducted from that accrued. Part-time workers, shareholder-employees, and discontinuous permanent contract workers will also receive unemployment.	No worker may be fired for two months.	Creation of an "exceptional and mass" partial unemployment and compensation mechanism for workers that are required to stay at home.
Self-employed	Compensation for lack of activity	€600 of aid in March and April. Those that have gone to work despite the lockdown and whose annual income does not surpass €40,000 will receive €100 in extra income for April	Availability of a solidarity fund for the self-employed
Mortgages	Moratorium in case of reduced income	Moratorium in case of lost employment	The Government will allow mortgage payments on primary residences to be deferred
Taxes	Company and self-employment tax payments may be deferred and paid in instalments	The Government has planned to suspend payments of bills, taxes, and mortgages to alleviate pressure on small business and households.	Temporary suspension of company and citizen tax obligations.
Home rentals	Automatic extension of rental contracts to avoid any abusive increase of prices, and aid to pay the rent of those in particularly precarious situations.	Automatic extension of rental contracts to avoid any abusive increase of prices, and aid to pay the rent of those in particularly precarious situations.	Suspension of rent payments for small businesses in financial difficulties. Aid to pay the rent of individuals in particularly precarious situations.
Guarantees for loans	€100,000 in Spain	The Italian government has approved a free state guarantee of up to 80% to act as the credit guarantor for up to five mio. euro.	The French state will guarantee bank loans taken out by companies for a value of €300,000 million.

Source: El Diario.[26]

26 Gil, Andrés: Comparison: Spain, France and Italy's economic measures to combat the coronavirus, El Diario, 18 March 2020, https://www.eldiario.es/internacional/comparativa-espana-francia-italia-coronavirus_1_1018986.html

Measures directed at priority economic sectors

This section includes all of the economic measures directed at the three economic sectors on which a large portion of the national economic activity depends: the automotive industry and the tourism sector, as well as the Shock Plan for Science and Innovation.

Plan to promote the automotive industry's value chain [27]

Presented by the Prime Minister of Spain on 15 June 2020, the plan includes a 3,750-million-euro aid package for the sector that is in line with similar interventions made by other European manufacturing countries, although the economic content is less if compared to that approved by France (€8 bn. euro) or Germany (€5,000 bn.).

This plan's measures are structured around five major pillars:

1. Replacing the fleet with more modern and efficient vehicles.
2. Investing and reforming regulations to drive competitiveness and sustainability.
3. Research, development, and innovation for the new challenges.
4. Tax measures to drive competitiveness in the sector.
5. Measures in the area of professional qualifications and training.

In turn, these five pillars are comprised of 21 economic, fiscal, regulatory, logistical, competitive, professional qualifications and training, sustainable public procurement, and strategic planning measures. It is backed by a total budget of €3.75 bn., where €1,5 bn. will be mobilised starting in 2020, and another €2,2 bn. will be mobilised in 2021 and onward:

5. €300 mio. to update the public fleet, recharging infrastructure, adapt cities to new mobility needs, and move towards electric transport.
6. €250 mio. to replace the fleet with newer, more efficient vehicles.
7. €415 mio. for research, development, and innovation to drive digitalisation, connectivity, and innovative solutions for sustainable mobility along with its associated industry.
8. €2,690 mio. for industrial value chain investments between 2020 and 2022.
9. *€95 mio. for professional training and qualifications.*

The plan's commitments include those made to the Spanish automotive industry, specifically the vehicle and components manufacturing sector, setting a target to advance with vehicle fleet decarbonisation and attract new electric and electrified models for manufacture in Spain, as we will see in the following section.

Plan to promote the tourism sector

Presented by the Prime Minister of Spain on 18 June 2020, the plan is allocated €4,262 mio.[28] and consists of 28 measures that are structured around five lines of action: recovering a sense of trust in the destination (a 360º safe destination), implementing measures to reactivate the sector, improving the tourist destination's competitiveness, improving the tourism intelligence and knowledge model, and a promotion and marketing campaign. The economic aid measures are divided into three main sections: a line of €2,500 mio. in guarantees from the *Instituto de Crédito Oficial* (ICO, "Official Credit Institute") to guarantee sector company liquidity, an €850 mio. line item to drive competitiveness and digitalisation, and another one for €731 mio. for the moratorium on hotel mortgages and tourism transport company leasing expenses. With the measures approved by the plan, we can see the promotion of indirect sector support mechanisms such as allowances for contracts and contributions, moratoriums on mortgage or tax payments, and lines of credit and guarantees that, through direct transfers or compensation to companies is the prevailing support mechanism in countries such as Germany.

Along with the measures included in the plan, we must include those stipulated in Royal Decree-Law 35/2020, dated 22 December, on emergency support measures for the tourism, hospitality, and commercial sector, and in terms of taxes, which included initiatives such as the temporary extension of the sector's temporary lay-off schemes (ERTE, in

27 Available online: https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/transportes/Documents/2020/15062020_PlanAutomocion2.pdf

28 Available online: https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/industria/Documents/2020/20062020_PlanTurismo.pdf

Spanish), allowances for contributions to social security, as well as allowances for permanent seasonal contracts (the sector's predominant contractual modality) that, together with the approved ERTEs, raise public expenditure in the sector to €19,5 bn. since the start of the health crisis.[29] In addition to this, we must add the similar plans approved by the Autonomous Communities. Despite being the economic sector that most benefited from the Central Government's implemented measures, the plan has been harshly criticised by the sector's employers' association (Alianza para la Excelencia Turística, *EXELTUR*), as they consider the allocation to be negligible in comparison with the sector's estimated €83 bn. in losses.[30]

Shock Plan for Science and Innovation (CDTI, in Spanish)

The CDTI was presented by the Prime Minister of Spain on 9 July 2020, and is allocated €1,1 bn., to which €508 mio. are added in the form of innovative company loans. According to the plan, R&D "and talent" are intended to be placed at the centre of the recovery strategy "following a decade of cuts and a lack of reform", using this focus with the purpose of "leading solutions to the COVID-19 crisis, while also making it possible for industries and competitive companies with high added value to be created".[31] The plan includes 17 measures structured around three pillars: research and innovation in health, transforming the science system and attracting talent, and driving company and science industry R&D.

This *Plan de choque por la Ciencia y la Innovación* ("Shock Plan for Science and Innovation") includes an investment of €1,1 bn., of which €396.1 mio. will be mobilised in 2020, with the remaining amount earmarked for 2021. The budget will be channelled through direct aid to the innovation and science system, to both scientific institutions as well as strategic business sector R&D. In addition to this investment are €508 mio. in loans with advantageous terms provided to innovative companies through new private R&D promotion instruments.

Nevertheless, the approved measure is fundamentally focused on the so-called *Vector Innovación Tecnológica* ("Technological Innovation Vector") and *Vector Capital Riesgo*, ("Venture Capital Vector"), which are lines defined by the CDTI (LIC and LICA) as Innovation. These are essentially mechanisms to finance the acquisition of equipment and technology produced by third countries, which means financing Spanish industry's technological dependency. In addition to this is the so-called *Tramo No Reembolsable* (TNR, "Non-Repayable Segment"), which favours the subsidising of imported technology supplies, above all for highly technologically intensive sectors such as the aviation industry and the automotive industry, providing venture capital and public spending mechanisms for equipment purchases. Regarding the previous point, the errors of previous governments persist, as a central component of the public R&D transfer policy is exclusively linked to venture capital.

Measures directed towards companies and self-employed workers

The measures aimed at companies include the creation of a line of guarantees through the ICO, and another line of insurance coverage for exporting SMEs. In addition, small companies have been allowed a total of €30 bn. to defer taxes and social contributions, and mercantile rules for shareholder meetings and registration documentation submissions have been eased.[32] The line of guarantees is allocated €100 bn. euro, which is open to the "request for loans or renewals guaranteed by this line of guarantees" to benefit "self-employed workers, SMEs, and companies from all sectors of activity" registered in Spain, and whose

29 Data provided by the Oficina Económica de La Moncloa, see: https://www.lamoncloa.gob.es/presidente/actividades/Paginas/2020/180620-sanchezturismo.aspx

30 See the press release from EXCELTUR: https://www.exceltur.org/wp-content/uploads/2020/06/Comunicado-con-valoraci%C3%B3n-de-EXCELTUR-del-Plan-de-apoyo-al-Turismo-180620.pdf

31 Available online: https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/ciencia-e-innovacion/Documents/2020/09072020_PChoqueCiencia.pdf

32 Available online: https://www.mineco.gob.es/portal/site/mineco/menuitem.32ac44f94b634f76faf2b910026041a0/?vgnextoid=6f9269e8c9b11710VgnVCM1000001d04140aRCRD&vgnextchannel=de1969e8c9b11710VgnVCM1000001d04140aRCRD

activity has been affected by the economic effects of the coronavirus.[33]

Measures in favour of sustaining employment. The ERTEs

The central employment protection measure and mechanism that has most efficiently contributed to company continuity has been the extension and flexibility of employment under the temporary lay-off scheme (ERTE, in Spanish)[34]. As the pandemic was declared a case of force majeure, ERTE processing has been simplified and streamlined, making its use easier and more generalizable. Here, Social Security becomes responsible for paying worker Social Security contributions as well as worker unemployment, which does not count against a worker's record. Added to this is the ban on dismissals for the six months following the State of Emergency's extension, which acts in favour of workers covered by one of the ERTE modalities. In parallel, a supplementary allowance is established for the self-employed to cover halted activity, along with a contribution payment waiver.

At the critical moment when companies closed because of the health crisis (April 2020), 3.4 mio. workers were covered by ERTEs, with 700,000 workers still benefiting from that modality today.[35] According to the Ministry of Labour and Social Economy, public spending on ERTEs reached €14 bn. in 2020.[36]

Measures in favour of vulnerable groups

The main initiative taken to benefit the most disadvantaged and exposed groups has been the approval of the *Ingreso Mínimo Vital* (IMV, "Minimum Vital Income"), which was an important change in Spain. Approved on 29 May 2020[37], Deputy Vice-President and Minister of Social Rights and Agenda 2030, Pablo Iglesias and the Minister of Inclusion, Social Security, and Migrations, José Luis Escrivá presented the initiative. The IMV is an instrument to guarantee minimum income to fight against the crisis, yet it also constitutes an instrument to fight against chronic and extreme poverty. The estimated annual public investment is around three bn. euro, and is planned to benefit 850,000 homes and 2.3 mio. individuals in total. Of these individuals, one mio. are now in extreme poverty (with annual income of less than €3,000) and 550,000 are in very high levels of poverty (with annual income of between €3,000 and €4,300).

The IMV has been established with as *structural* nature, with the express intention of serving as a permanent programme's safer design laboratory, opting for a conditional benefit and not unconditional universal basic income. As such, in its first months of application, only 20% of cases received were accepted.

Likewise, together with the IMV, of note is the freezing of evictions, the extension of rental contracts, and rent payment assistance through State loans, as well as guaranteed electricity, gas, and water provisions for the duration of the State of Emergency, which benefited workers and at-risk populations, or those in severe poverty.

The next step —after avoiding ruptures in the productive fabric and ensuring the protection of those most directly affected by the sudden drop in activity— will be re-establishing the Spanish economy's path towards stable growth, as anything to the contrary will soon deplete resources for supporting businesses, vulnerable workers, and sectors of the population at risk of exclusion, or those in severe poverty.[38]

33 See: https://www.mineco.gob.es/stfls/mineco/ministerio/ficheros/20200424_QA_Linea_Avales.pdf

34 See: Royal Decree-Law 9/2020, dated 27 March, through which complementary labour measures are adopted to alleviate the effects derived from COVID-19.

35 See Instituto Nacional de Estadística (2020): *España en cifras 2019*. Available online: https://www.ine.es/prodyser/espa_cifras/2019/

36 See: https://www.lavanguardia.com/economia/20201104/49238100946/gasto-pago-erte-2020-espana.html

37 See: https://www.lamoncloa.gob.es/consejodeministros/resumenes/Paginas/2020/290520-cministros.aspx

38 See: https://www.mscbs.gob.es/ssi/COVID19/desahucios/home.htm

THE SOCIAL SHIELD AND THE DEBATE OVER CHANGES TO THE SPANISH PRODUCTION MODEL

The depth of the economic crisis derived from the coronavirus crisis in Spain makes it a special case within the EU, where the specific characteristics of its production model allow for the gravity of the health crisis and the scope of its social and economic consequences to be understood. Because of the aforementioned, a debate is arising around the need to transform the production structure of a country that is experiencing the highest levels of public spending seen in recent decades due to the stimulus measures. Faced with this reality, the following research question arises: to what degree is the public expenditure used for stimulus measures geared towards transforming the Spanish production model. To respond to said question, the study starts with a qualitative methodology in order to analyse the scope of the structural changes contemplated by the measures included in the *Social Shield*.

Supporting supply and demand: where is the money spent?

On the *supply side*, of the €200 mio. earmarked for measures and plans included in the *Social Shield*, €132,5 mio. finance policies directed towards maintaining company liquidity through the concession of State guarantees using official lines of credit (ICO, in Spanish), contract and social contribution allowances, and the temporary suspension of Public Treasury tax obligations. Due to their scope and allocations, these measures ensure that the initiatives rolled out by the Government are directed towards supporting supply though indirect policies that do not rely on direct incentives or direct resource assistance, and instead opt for the concession of publicly backed loans and credits.

Supply side expenditure

Moving on to the *supply side,* the measures meant to stimulate company investment, increase their size, or expand their capitalisation can be observed in certain line items of the considered sector plans (automotive and tourism). As such, the "Investments to drive competitiveness and sustainability" section of the *Plan de Impulso de la cadena de valor de la industria de automoción* ("Automotive Industry Value Chain Promotion Plan") earmarks €1,2 bn. for the financing of loans through the *Plan de Ayudas para actuaciones de Reindustrialización* (REINDUS, "Re-Industrialisation Action Aid Plan"). This programme was conceived to attract investment to territories in industrial decline, although it is temporarily enacted to finance business projects whose goal is, according to the plan, to increase their capacity for capitalisation by seeking out "the integration of Spanish companies into major strategic industrial value chains in the mobility and automotive sectors, positioning our country […] as a central node in the sector's major transformation vectors".[39]

Within the plan, we find another example supporting supply, with the direct financing of commercial incentives in favour of air carriers with a 25-million-euro investment through the Ministry of Industry, Trade, and Tourism's *Plan de Reactivación del Turismo* ("Tourism Reactivation Plan") with "the goal of contributing to the rapid recovery of air traffic in Spain".[40] This assistance is planned through March 2021.

Demand side expenditure

On the *demand side*, of note are the measures associated with public incentives to update the fleet of vehicles by replacing old, polluting vehicles with cleaner vehicles, and driving the competitiveness of companies and the self-employed "through fuel savings resulting from an updated fleet". The *Plan de Impulso de la cadena de valor de la industria de automoción* ("Automotive Industry Value Chain Promotion Plan") includes measures to update vehicle fleets with €500 mio. divided into three lines of action. On one hand, the 2020 edition of the *Programa de impulso a la movilidad eléctrica y sostenible* (Plan MOVES, "Electric and Sustainable Mobility Plan") is implemented with €100 mio. aimed at acquiring alternative energy vehicles (including electric vehicles and natural gas heavy goods transport vehicles), rolling out eclectic vehicle recharging infrastructure, shared electric bicycle systems, and efficient mobility measures. On the other hand, the *Programa de renovación del parque* ("Fleet Replacement Programme") is implemented with €250 mio. and measures whose objectives are aimed at "the oldest vehicles being replaced by safer, cleaner models through a replacement programme

39 See: *Plan de Impulso de la cadena de valor de la industria de automoción* (Page 5).

40 Page 19.

that incorporates environmental criteria […] to incentivise polluting vehicles in circulation being replaced by low or zero-emissions vehicles". The programme will be applied to light commercial and passenger vehicles, as well as heavy industrial vehicles and buses. Lastly, €100 mio. will be used to finance the replacement of the General State Administration of Spain's fleet of vehicles, and another €100 mio. will finance *CERO* (electric and hybrid) certified vehicles and electric vehicle recharging infrastructure roll-out for local Administrations.[41]

Another example of *demand side* expenditure can be found in the *Plan de Impulso del Sector Turístico* ("Tourism Sector Promotion Plan"), which includes "measures to improve tourist destination competitiveness". This plan is financed with €859 mio. from the *Fondo Financiero del Estado para la Competitividad Turística* (FOCIT, "State Financial Fund for Tourism Competitiveness") with the goal of backing business projects mainly geared towards "tourism sustainability plans and tourism sector digitalisation, innovation, and internationalisation".[42] Mainly, this will finance the acquisition of supplies directed towards tourism establishments, hotels, and tourism transport companies adopting digitalisation processes and technological innovation associated with sustainability and *green tourism* criteria, thereby increasing their international demand.

Lastly, we must mention pillar 3 of the *Plan CDTI* ("industrial technological development centre plan") to "drive science industry and business R&D", "reinforce the base of our innovative productive fabric as one of the country's social and economic reconstruction pillars […], and drive the innovative capacity of our businesses with transversal and concrete measures in strategic sectors".[43] This will be done through aid for purchasing technological supplies and innovation process support, as these line items are closest to aggregate demand re-structuring initiatives in sectors mainly focused on the energy, automotive, aviation, mobility, and health sectors. With a stipulated budget of €2,2 bn. annually, this plan attempts to reach "a relative weight of public support for business R&D similar to that of Europe's leading nations", through three vectors (R&D, technological innovation, and technological venture capital)" whose goal is to achieve the "development of cutting-edge technologies on the medium/long-term for consolidated companies to face global challenges (sustainability, energy, mobility, health) (national champions) that ensure their competitiveness and presence in global value-added chains"[44], and allowing them to purchase and implement technological supplies for later distribution within the supplier chain. In addition to these, we can add the automotive and aviation sector company R&D financing found in pillar 3 (€25 mio. and €65 mio., respectively).

It should be noted that *national champion* mainly refers to public incentives to finance business R&D for Spanish subsidiaries of foreign translational companies (ETN, in Spanish) that aim to adapt themselves to the technological requirements demanded by the value chains in which they are integrated, with criteria largely being set by the ETN's foreign parent company.

The Social Shield and the promotion of a sustainable economy

In terms of demand, the expenditures are not meant to finance direct aid or incentives to acquire specific goods or services, but rather to maintain certain levels of domestic demand, guaranteeing the consumption capacity of individuals affected by the crisis to the greatest degree possible, above all with measures like the IMV, moratoriums on rental payments, guaranteed basic utilities, and maintaining employment through ERTEs.

Restructuring aggregate demand linked to a sustainable economy, as indicated in the automotive, tourism, and CDTI sector plans, indicates that objectives connected to economic growth, business adaptation to digitalisation processes, and Spanish businesses' increased internation-

41 *Plan de Impulso de la cadena de valor de la industria de automoción* (p. 7-10).

42 Page 20.

43 Page 4.

44 Page 23.

al competitiveness, take precedence over those related to sustainability.[45]

The Plan *de Impulso de la cadena de valor de la industria de automoción* ("Automotive Industry Value Chain Promotion Plan") has the subheading "Towards connected and sustainable mobility", and is the only one with express reference to "green economy" criteria, specifically through vehicle buying incentives. However, 75% of this public expenditure will finance private vehicles using any kind of technology, with a 120-gramme emissions limit that is 25 gram more than Europe's required average. Although subsidies can be requested for buying electric cars —with a buying incentive of up to €4,000 —, the low degree of electric vehicle implementation in Spain does not lead one to believe that this is the best path towards application in a market where only 2% of cars sold in Spain are electric. As such, the aforementioned Plan MOVES will allow polluting vehicles to be publicly subsidised, given that 80% of vehicles manufactured in Spain are exported. The plan attempts to benefit factories located in Spain, which produce very few electric models and very many cars below 120 gram of CO_2/km.[46]

The debate over promoting national production

In terms of objectives to increase the national manufacturing component in global value chains and supply for domestic demand, these criteria are not addressed in the measures and plans analysed. As such, the measures directed towards the automotive sector, like those that have just been mentioned, result in expenditure policies with a clear propensity for imports[47], which account for up to 86.4% of the programmes total budget (when adding objectives a-b, and c of the plan). This is a result of the Spanish sector's heavy technological dependency, and Spanish subsidiaries being excluded from strategic R&D decisions taken by the Spanish sector's ETN parent companies, which explains how a large portion of the planned resources will end up financing the purchase of imported components or vehicles manufactured outside of Spain. Technological dependency problems and exclusion from decision-making centres are issues that are difficult to reverse with the €500 mio. earmarked for increased national R&D and active workforce training policies.

In terms of the *Plan CDTI*, the major lines of financing for technology purchases are specifically included in the *Vector Innovación Tecnológica* ("Technological Innovation Vector") and the *Vector Capital Riesgo* ("Venture Capital Vector"). This plan mainly consists of financing third-party purchases of process technologies. Above all, this is focused on innovation expenditures associated with high technology and medium-high technology components, goods, and services that are essentially imported, thereby increasing the structural problems of the Spanish economy in terms of its technological dependency.[48]

Public aid and its relationship with employment and the permanence of production

Lastly, both on the supply and demand side, these measures do not expressly include commitments that guarantee production or the permanency of employment, nor do they mention new investments to be made by the sector. The ERTEs, which are connected to companies being prohibited from laying off workers that are covered by this modality until six months after it has concluded, do stand as an exception. However, this protective measure does have the disadvantage of being labour legislation that reduces *unfair dismissal,* whose compensation is just 33 days per year for permanent and temporary contracts, and 20 days per year for temporary contracts if the company decides on termination for objective reasons.

45 Further reading of documentation on this subject is recommended: Presidencia del Gobierno (2020): *España puede. Plan de recuperación, transformación y resilencia*, pp. 10-17. Available online: https://www.lamoncloa.gob.es/presidente/actividades/Documents/2020/07102020_PlanRecuperacion.pdf

46 See: Izquierda Unida (2020): *Plan de Impulso de la cadena de valor de la industria de automoción*. *Comentarios críticos*, Secretaría de Economía.

47 42.5% of the total value of a vehicle manufactured in Spain has its origins outside the country, in particular high and medium-high intensity technology components. See Consejo Económico y Social (2019): *La industria en España. Propuestas para su desarrollo*. CES 04/2019 report. Available online: http://www.ces.es/documents/10180/5209150/Inf0419.pdf/f4762c67-4b8f-3a1b-af6c-beca09cb1976

48 In terms of the issues of the Spanish economy's propensity for importation and technological dependency, see Consejo Económico y Social (2019): *La industria en España. Propuestas para su desarrollo*. CES 04/2019 report (Chapter 2). Available online: http://www.ces.es/documents/10180/5209150/Inf0419.pdf/f4762c67-4b8f-3a1b-af6c-beca09cb1976

What type of industrial policy is supported? The horizontal and sectoral focus of aid

The health crisis unleashed by the coronavirus in Spain, and the difficulties of producing basic goods and essential health supplies, has demonstrated the fragility of a production model that bet everything on the tourism sector and services at the expense of industry. During the spring of 2020, at the height of the pandemic, Spain opened an important debate on the industrial sector's necessary recovery and industrial policy as economic policy.[49]

By analysing the Government's approved plans, we can see that the horizontal focus predominates, as measures inspired by "indifferentiation" and the possible "neutrality" of its policies were considered. Therefore, a revitalisation of industrial activity's role in conceiving the economic development process must be accompanied by a demand for active industrial policy.

As such, from the economic measures and plans approved by the Government since the State of Emergency was declared (March, 2020) to the approval of the General State Budgets (December, 2020), industrial policy initiatives would be focused around the *Plan de Impulso de la cadena de valor de la industria de automoción* ("Automotive Industry Value Chain Promotion Plan") and pillar 3 of the *Plan CDTI*.

Reading both plans reveals a conventional approach, by identifying industrial policy with a collection of measures focused on overcoming the market's imperfections and failures, particularly in the identification and exploitation of foreign economies, which is embodied in the search for competitiveness and improved efficiency as the central objective of the industrial policy measures considered.

In terms of the horizontal aspect, the sector structure's diversification is not sought by incorporating branches and segments with greater technological complexity, but instead by adopting a Spanish company specialisation strategy in phases more associated with transformation and the assembly of *inputs*. In terms of the vertical aspect, there are no references to goals to increase the local content of final products, controlling or mastering more phases of the final manufacturing process within global value chains, adopting (in terms of the prior) a pattern of industrial specialisation based largely on the importation of intermediate goods that are later used in the production of exports.[50]

This conventional nature brings with it the predominantly *horizontal focus* of the measures adopted, where support for research, tax incentives, loan concessions, and support for improved infrastructure, are not linked to the stated goal of archiving a certain ability to transfer resources, which supposes selectivity in terms of products and industrial branches. Nor are they connected to the existence of a far-reaching goal that is explicitly assumed or quantified with the purpose of intervening in the economic dynamic in favour of some of its aspects, both in the area of production (productivity, innovation, sectoral restructuring, and capital accumulation processes) and circulatory activities (competitiveness, domestic market, the Spanish economy's insertion into the global economy).

Within a *sectoral focus*, we find the measures included in point 2.4 "Improving transport logistics competitiveness"[51] of the *Plan de Impulso de la cadena de valor de la industria de automoción* (Automotive Industry Value Chain Promotion Plan"), which makes specific references regarding technical adaptation, infrastructure, and the improved competitiveness of the logistics sector in its connection between

49 The following documents are recommended as further reading:
1. Manifesto signed by key CCOO union leaders, *Hacia una nueva España industrial* ("Towards a New Industrial Spain") published on 30 April 2020 in digital magazine CTXT. Available online: https://ctxt.es/es/20200401/Firmas/32050/Manifiesto-Espana-industrial-politicas-austeridad-innovacion.htm
2. Real Instituto Elcano (2020): *Una política industrial transformadora para la España post COVID-19*. Available online: http://www.realinstitutoelcano.org/wps/wcm/connect/2f279449-ed1c-4cff-b6b5-d666e6cdee5f/Policy-Paper-Politica-industrial-transformadora-Espana-pos-COVID-19.pdf?MOD=AJPERES&CACHEID=2f279449-ed1c-4cff-b6b5-d666e6cdee5f
3. The CCOO's Fundación 1º de Mayo (2020): *Hacia un nuevo país industrial. La industria de la movilidad como motor de recuperación tras el COVID-19*. Available online: https://www.ccoo.es/noticia:520586--%E2%80%9CHacia_un_nuevo_pais_industrial_La_industria_de_la_movilidad_como_motor_de_recuperacion_tras_el_COVID_19%E2%80%9D&opc_id=8c53f4de8f8f09d2e54f19daf8d8ed95

50 Consejo Económico y Social (2020), *op cit*; p. 34-39.

51 *Plan de Impulso de la cadena de valor de la industria de automoción* (page 11).

assembly plants and freight distribution nodes, and port departures to foreign markets. This would allow us to point to an articulation between the public works sector in terms of constructing new infrastructure, road and rail transport, industrial branches, and economic activities where Spain maintains an important production capacity, in which a value chain of territorialised activities could be articulated. Nevertheless, this goal lacks specific economic provisions within the plan.[52]

Spanish company protection against foreign takeover

Spanish company protection measures are included in Royal Degree-Law 34/2020, dated 17 November, on emergency support measures for company solvency and the energy sector, and in terms of taxes.[53]

The text marks its objective of protecting the productive fabric, companies, and family income through deterrence measures against speculative fund acquisitions of companies in crisis, or the selling of debt to foreign investors. This is done through ICO eight-year guarantees of €40 bn. that are between 60% and 80% backed by the State. The majority of these operations benefit the self-employed and micro-enterprises of less than ten workers, although nearly 18,000 financial operations will be completed with large companies, and 48,000 will be completed with SMEs of more than ten employees.[54]

Together with the aid measures for company solvency, temporary measures are included (until 30 June 2020) that suspend free direct investment made by foreign investors and leave certain transactions requiring Government authorisation. These transactions include those with the purpose of investing more than €500 mio., taking over more than 10% control or seizing control of traded companies, and those in energy or business sectors affiliated with the bailout fund.

In terms of venture capital funds taking positions in Spain, their scope, and sectoral actions during 2020, we recommend reading the *Informe de la Asociación Española de Capital, Crecimiento e Inversión* ("Spanish Capital, Growth, and Investment Association Report") from venture capital fund industry association ASCRI[55], which points to traditional sectors such as housing being replaced as the centre of attention by funds, with other sectors such as health, biotechnology, digitalisation, and artificial intelligence. According to the report, of note are the major foreign investment groups like BlackRock taking positions in financial institutions such as CaixaBank, Spain's leading financial institution, of which it has controlled 3.23% since December 2020. In terms of Almundi, which is Europe's leading fund and controlled by French bank Crédit Agricole, said bank has held a 4.5% share in Spain's leading petrochemical company Repsol since January 2021. Another example is the 26 January announcement of Australian giant and fund specialised in infrastructure IFM's intention to buy (takeover bid) in order to take control of 22.7% of Spain's third largest energy company **Naturgy.**

The role of the State in the private business sector

In addition to those previously mentioned, Royal Decree-Law 34/2020, dated 17 November, contains a third measure that includes the creation of the €10 bn. *Fondo de Apoyo a la Solvencia de Empresas Estratégicas* ("Strategic Company Solvency Assistance Fund") that will help compensate for the health emergency's impact on the balance sheets of solvent companies deemed strategic to the economic and productive fabric. The financing of operations covered by the fund are configured as a temporary intervention that is a last resource once it is demonstrated that it would be impossible for the beneficiary to sustain their activity in the absence of public support.

The channels used will be chosen according to those most appropriate for addressing the beneficiary's recapitalisation needs, and those that least disrupt competition. The minimum transaction amount will be €25 mio. per beneficiary. Compensation for operations and State debt will be adjusted to that established in the applicable regulations,

52 See pages 10 and 11.

53 See: https://www.boe.es/diario_boe/txt.php?id=BOE-A-2020-14368

54 See: https://www.publico.es/politica/escudo-social-recorta-alas-fondos-buitre-buscan-empresas-ruina.html

55 Ascri (2020*): Valoración del impacto económico y social de las inversiones de Venture capital*. Available online: https://www.ascri.org/wp-content/uploads/2018/09/Informe-Impacto-Venture-Capital.pdf

with the role of the State being subjected to the principle of subsidiarity.

The Fund was created as ascribed to the General State Administration of Spain though the Ministry of Finance of Spain, and will be managed by a Management Council through the Sociedad Española de Participación Industrial (SEPI, "Spanish Industrial Holding Company"). The companies covered by the bailout fund will not be able to pay out dividends or bonuses, nor variable remuneration to their board members while benefiting from the fund. The Management Council will be the competent authority for resolving temporary aid requests from non-financial companies affected by the COVID-19 pandemic, and will forward approval of operations subject to the regulation for authorisation from the Council of Ministers.

Beginning 2021, Grupo Globalia airline Air Europa and engineering company Duro Felguera are the only companies using the fund. More specifically, Air Europa has formally requested an injection of €400 mio., while Duro Felguera has asked this mechanism for financial backing of €100 mio.

Measures planned on the labour side, and the role of unions

The previous sections have mentioned worker assistance measures such as halting dismissals, providing subsidies, allowances, and moratoriums. In particular, let us refer to that expressed in *sections 4.3* and *5.1.5* in terms of the ERTEs, the main –and most efficient– measure for protecting employment.

In terms of protecting employment, the measures approved mainly rely on the *Acuerdos Sociales en Defensa del Empleo* ("Social Agreements in Defence of Employment"), with three having been signed since the beginning of the State of Emergency (March, 2020), and the last of which on 19 January. These agreements are part of the *Diálogo Social* ("Social Dialogue"), which is a decision-making and negotiations-holding mechanism that involves the Government (through the Ministry of Labour and Social Economy[56]), the Confederación Española de Organizaciones Empresariales (CEOE, an employers' association), Confederación Española de la Pequeña y Mediana Empresa (Cepyme, a small and medium enterprise employers' association), Comisiones Obreras (CCOO, the country's largest union), and the Unión General de Trabajadores (UGT, Spain's second largest union).

The success of the Social Dialogue during the period analysed can be focused around three measures: the different *Acuerdos Sociales en Defensa del Empleo* ("Social Agreements in Defence of Employment"), whose III ASDE was signed on 19 January, approving the extension of all temporary lay-off schemes (ERTEs) based on causes related to COVID-19 through 13 May, a framework through which the sectors to be covered by the measure are agreed upon, including legal support measures, as well as company commitments not to resort to lay-offs for the following six months; negotiations and later approval of the *Ley de Trabajo a Distancia* ("Remote Working Law")[57], which guarantees and covers key aspects of workers' rights; and the framework agreements that govern collective negotiation, as well as the extension of other work protection measures, moratoriums, and the aid to businesses in crisis studied in the previous sections. In terms of current negotiations, those relating to the increase of the *Salario Mínimo Interprofesional* (SMI, "Guaranteed Minimum Wage") and repeal of the Labour Reform carried out under Mariano Rajoy's Government in 2012, stand out due to their relevance, although no agreements have been produced to date.

Lastly, it should be noted that on 16 November 2020, Prime Minister of Spain Pedro Sánchez created the *Mesa de Diálogo Social para la Recuperación, la Transformación y la Resiliencia,* ("Social Dialogue Roundtable for Recovery, Transformation, and Resilience") with unions and employers in order to regulate social dialogue around the *Plan de Recuperación* ("Recovery Plan")[58] that directed the use of resources from the *Next Generation* Recovery Fund.

56 Whose leader is Yolanda Díaz, a militant of the Partido Comunista de España (PCE) and member of the Grupo Parlamentario Confederal of Unidas Podemos.

57 Legal texts stipulated in Royal Decree-Law 28/2020, dated 22 September, on remote working. Available online: https://www.boe.es/diario_boe/txt.php?id=BOE-A-2020-11043

58 Presidencia del Gobierno (2020): *España Puede. Plan Recuperación, la Transformación y la Resiliencia*. Available online: https://portal.mineco.gob.es/RecursosArticulo/mineco/ministerio/ficheros/plan_de_recuperacion.pdf

CONCLUSIONS

The following conclusions can be drawn from the analysis completed.

Firstly, there appears to be a clear break between the way in which the economic crisis is being managed during the COVID-19 health crisis, and the way the 2008 crisis was handled. The expansive use of social expenditure and counter-cyclical measures present a departure from the adjustment policies rolled out during the Governments of José Luis Rodríguez Zapatero and Mariano Rajoy.

Secondly, the measures implemented intend to replace shrunken private demand with expansive social spending in an attempt to slow the consequences of the crisis in terms of employment and business closures in a county dependant on the services sector, as well as the tourism, hospitality, commerce, and transport that are so connected to what is now highly restricted social contact and mobility.

Of these measures, we can highlight the credits guaranteed by the State, which allowed one eighth of company debt generated during the crisis to be supported by the government at between 60% and 80%, reaching a total of €114 bn. In terms of employment, both aid to self-employed workers (€34 bn.) and ERTEs (€14 bn.) has allowed job destruction to be contained, avoiding the 20% unemployment figure forecast for 2020. Instead, this figure sat at 16.1%, which speaks to the impact of the crisis despite resources employed, as more than 600,000 jobs were destroyed last year.

As a third conclusion, we can see how supply-related measures have been characterised more by the concession of public guarantees, moratoriums, and measures to temporarily suspend tax obligations, than support for public incentives (with the exception of those conceded to airlines) or direct subsidies. Meanwhile, the demand side has dominated public policies focused on vulnerable sectors (not universally), which are based on indirect transfers, moratoriums on mortgage payments, halting evictions, and guaranteeing basic utilities, and much less so on subsidising the purchase of goods (with the exception of initiatives to replace the fleet and purchase non-polluting vehicles) or direct transfers (with the exception of the IMV).

A fourth conclusion refers to the most ambitious and novel labour and social measures, such as the IMV and the flexible and extended use of the ERTEs. While the IMV's implementation is currently experiencing challenges, the ERTEs have become one of the most successful and valuable measures developed by the Government, with union involvement and the Unidas Podemos party playing a central role. In terms of this last measure, the importance of continued public intervention should be noted so that many of these ERTEs do not become dismissals once their application ends on 31 May.

A fifth conclusion alludes to the predominately orthodox character of the rolled out sectoral policies, in which industrial policies are given little attention and the pattern of tourism specialisation and auto exports are reiterated in the model through the use of horizontal and undifferentiated policies that particularly affect financed innovation and technology policies. In these terms, we can see a push for a pattern of insertion into global value chains based on the importation of technology-intensive intermediate goods for assembly in Spain and later exportation, which results in the Spanish economy's chromic problems of technological dependency, foreign control over key production sectors, and a specialisation in work dependant on low labour costs and an intensive use of resources and energy.

These aspects allow for a final conclusion to be drawn, which alludes to the contradiction, in strategic policy terms, between the push for redistributive social policy and expansive public spending, and orthodox economic policy associated with medium-term containment of the money supply and salaries.

This contradiction lays in the debate between the self-centred industrial economy option in which domestic demand plays a major role, and a financed services economy oriented towards foreign demand. This, a contradiction that accentuates the broader debate on the organic crisis that Spanish capitalism is experiencing.

Italy: Leaving industry alone

*By **Matteo Gaddi**, is a member of the Scientific Committee of the Claudio Sabattini Foundation and a trade union official at CGIL in Reggio Emilia. He carries out research and training activities on the themes of work organization, new technologies and economic and industrial policies. Among his recent publications are "Industry 4.0: freer or more exploited?" (2019) and "Automotive and electric mobility" (2019).*

The analysis of the main measures taken by the Italian Government to counter the COVID-19 crisis is a very complex task.

As usual, the Italian Government has intervened with several decisions, often overlapping over time, or with continuous changes that make it very difficult to clearly reconstruct the objectives and tools used.

Moreover, and always as usual, the Italian Government's measures lack an organic design and end up assembling profoundly different measures, both in terms of scope and size. The so-called "micro measures" are many, and it is almost impossible to account for all of them so as not to end up in a labyrinth with no exit.

For this reason we will focus only on 4 measures that have followed one another from March to August: the "Cura Italia" Decree (March), the Liquidity Decree (April), the Relaunch Decree (May) and the August Decree (August). Each of these decree-laws has been successively converted into law with amendments made by Parliament to hundreds of articles (each Decree, in fact, consists of a very large number of articles, in the only case of the Relaunch Decree the articles are 266, but not counting that many articles also have the version bis, ter, etc.).

This analysis does not include the new Decree (Allowances Decree), published on 28 October, which includes new refreshment measures for activities for VAT economic operators in the sectors affected by the new lockdown, new tax measures, social shock absorbers, etc..

The analysis of the National Reform Programme is not included either, as it is linked to the National Recovery Fund Plan; therefore, a subsequent analysis of the contents of these documents will be carried out.

This document focuses only on the measures already adopted and financed by the Italian Government, not on the measures covered by Reform Programmes or Recovery Plans.

We have organised this analysis in the following points:

- Measures defined by Italian Governments on the demand-side
- Measures defined by Italian Government on the supply-side
- Measures to support companies' need for liquidity
- Sectorial measures
- The possibility of exercising public powers within industrial sectors
- Public intervention
- Planned measures on the labour side
- The creation of new jobs planned through public programmes

The analysis of these measures is also carried out with a high degree of technical detail, as it is considered useful for a full understanding of their effects and, above all, of the definition techniques adopted by the Government aimed at precise political objectives.

THE MEASURES DEFINED BY ITALIAN GOVERNMENTS ON THE DEMAND-SIDE

As demand-support measures, we intend to provide incentives for consumption incentives, i.e. measures to support individual demand to buy goods and services. At the same time, we try to highlight the following question: if individual incentives are provided for the purchase of certain goods, are these goods produced in the country or are they imported?

AUTOMOTIVE SECTOR

The Relaunch Decree provides for new contributions for the purchase of hybrid electric vehicles, as well as vehicles

with any power supply, with emissions exceeding 60 g/Km of CO_2, provided that they are of at least Euro 6 class, both with and without scrapping; these incentives can be cumulated, under certain conditions, with the current "eco-bonus" for the purchase of hybrid and electric vehicles; tax incentives are also provided for the transfer of ownership of used vehicles of a class of at least Euro 6, with scrapping of more polluting used vehicles, up to Euro 3.

The increase in the Fund for the purchase of low-emission vehicles is confirmed by €100 mio. for the year 2020 and €200 mio. for 2021, which is then further increased by €50 mio. for 2020 for the exclusive coverage of the new incentives introduced herein.

The Relaunch Decree, in fact, increases the fund for the purchase of low CO_2 emission vehicles (already established by the Budget Law for 2019) by €100 mio. for the year 2020 and €200 mio. for 2021. The Fund's endowment therefore amounts, after this change, to €170 mio. for 2020 and €270 mio. for 2021.

In addition, an additional €50 mio. are foreseen to cover the additional measures. The Budget Law for 2019, in fact, provides for a contribution for those who purchase, also under financial lease, and register in Italy, from 1 March 2019 to 31 December 2021, a brand new M1 category vehicle, with a price lower than €50,000 excluding VAT; the contribution is recognised on condition that a vehicle of the same category approved to classes from Euro 0 to Euro 4 is delivered at the same time for scrapping and is parameterised to the number of grams of carbon dioxide emitted per kilometre (CO_2 g/km: three CO_2 emission bands, the first lower than 60 g/km, the second between 60 and 95 g/km and the third higher than 95 g/km).

The new incentives are of two types, with or without the scrapping of a similar vehicle, and are granted to natural and legal persons who purchase in Italy from 1 August 2020 to 31 December 2020, also under financial lease, a new M1 category vehicle (cars).

The bonus has the following characteristics:

a) in the case of the scrapping of a similar vehicle registered before 1 January 2010 or which during the period of validity of the bonus exceeds ten years of seniority from the date of registration, the State contribution is equal to €2,000 in the case of the purchase of electric and hybrid vehicles (with emissions from 0 to 60 g/KM of CO_2), and €1,500 for the purchase of vehicles with any fuel supply with emissions from 61 to 110 g/KM of CO_2;
b) without scrapping a similar vehicle, the contribution is equal to €1,000 in the case of purchase of electric or hybrid vehicles (with emissions from 0 to 60 g/KM of CO_2) and €750 in the case of purchase of vehicles with any power supply, with emissions from 61 to 110 g/KM of CO_2.

Both with and without scrapping, vehicles other than electric and hybrid vehicles can also benefit from the new bonus, with any fuel supply, but within the pollutant emissions threshold of 110 g/Km CO_2, which are approved in a class of not less than Euro 6 of the latest generation and have a price of less than €40,000, net of value added tax.

For electric and hybrid vehicles, on the other hand, with CO_2 emissions between 0 and 60 g/km, the contribution is recognised for vehicles with a price of less than €50,000, also net of VAT.

In addition, there is a tax concession on the transfer of ownership of vehicles, in the case of the purchase of a used vehicle of a class of at least Euro 6 with scrapping of a more polluting used vehicle (payment of 60% of the tax charge on the transfer of ownership of the purchased vehicle for individuals who, between 1 July 2020 and 31 December 2020, scrap a used vehicle approved in classes from Euro 0 to Euro 3, and purchase a used vehicle approved in a class of not less than Euro 6 or with CO_2 emissions of less than or equal to 60 g/km).

The Decree provides an additional incentive of €750 for individuals who scrap a second M1 category vehicle falling within those provided for in paragraph 1032, to be added to the €1,500 already allocated to the first vehicle, at the same time as purchasing a vehicle with CO_2 emissions between 0 and 110 g/km.

Alternatively, it is possible to use the incentive in the form of a tax credit within three years for the purchase of electric scooters, electric or muscular bicycles, public transport subscriptions, shared or sustainable electric mobility services.

This measure is indicative of the Italian Government's total lack of industrial policy.

The Government, in fact, is only concerned with introducing an ecobonus for the purchase of less polluting vehicles, but it does not raise the question of whether or not there is an industrial supply chain in Italy capable of producing these goods.

More generally, there is a production of the Italian car industry that can be summed up in the collapse of car production: while at the end of the 1980s almost 2 mio. cars were produced in Italy, in 2019 this number fell dramatically to 543,000 vehicles, bringing Italy closer and closer to the production situation of countries such as Romania, Hungary or Poland.

In addition, production of electric vehicles in Italy has recently started with a production line for the electric 500 vehicle at the FCA plant in Turin, with a production capacity of 80,000 vehicles per year, but with a realistic production forecast of 20,000 vehicles per year. It should be noted that the electric 500 was only presented on 22 October 2020, the date from which it will presumably go on sale.

The situation is only partly better in the hybrid vehicle sector because at the moment, in addition to the 500, FCA electrification concerns Jeep (Renegade and Compass) with PHEV hybrid models; the Alfa Romeo brand should proceed with Tonale (in about a year's time it will be launched as a PHEV hybrid) and the Stelvio is mature as a hybrid and should therefore proceed; a Giulia hybrid has just been announced for next year. Therefore, even in the hybrid models there are some delays.

Furthermore, the situation is disastrous from the point of view of battery production: the batteries for Renegade and Compass are supplied by the Korean company LG Chem, while for other models the Chinese company CATL could also intervene. But above all, there is no investment project in Italy to build a battery production plant for electric vehicles.

This measure, therefore, could have a very limited impact on the industrial structure and employment levels in Italy, since a substantial part of the goods (both as final and intermediate goods) whose purchase is supported by tax incentives, could be produced abroad.

These concerns can also be extended to a further measure provided for in the Relaunch Decree on the bonus scheme for the purchase of two and three-wheeled vehicles as well as electric or hybrid quadricycles, which modulates a measure already in force from 2019 and provides for a discount of 30% of the price up to a maximum of €3,000, extending its application even in the absence of the scrapping of a similar polluting vehicle; the same bonus is then increased up to 40% of the purchase price, with a maximum of €4,000, in the event that any vehicle in the euro 0, 1, 2 or 3 category is scrapped.

Also in this case the Italian Government has limited itself to introducing ecobonuses for the purchase of these vehicles, without worrying about the industrial chain necessary to produce these goods.

BUILDING SECTOR

The Relaunch Decree also introduced strong tax advantages in support of the building sector: in fact, a tax advantage has been introduced consisting of a deduction of 110% of the expenses related to energy efficiency building works (also through demolition and reconstruction works) and anti-seismic measures on buildings incurred from 1 July 2020 until 31 December 2021. This deduction is also provided for the installation of solar photovoltaic systems connected to the electricity grid as well as infrastructure for recharging electric vehicles in buildings. Tax deduction means that the expenses incurred to carry out these construction works can be deducted from a person's tax burden. Therefore, in this case, not only the full amount, but even an additional 10% (110% bonus) of the expenses incurred for these interventions will result in a tax discount of the same amount.

As the tax advantage is spread over several years, the public funds to support this measure are as follows: €63.6 mio. for the year 2020, €1,294 mio. for the year 2021, €3,309 mio. for the year 2022, €2,935 mio. for the year 2023, €2,755 mio. for the year 2024, €2,752 mio. for the year 2025, €1,357 mio. for the year 2026, €27.6 mio. for the year 2027, €11.9 mio. for the year 2031 and €48.6 mio. for the year 2032.

The typology of interventions covered by this measure is very wide, because with the term of energy requalification of buildings means, for example, the reduction of energy requirements for heating; the replacement of winter air conditioning systems with systems equipped with condensation boilers; the implementation of interventions on existing buildings, parts of existing buildings or building units on walls, roofs and floors, the installation of solar panels; the replacement of traditional water heaters, the purchase and installation of solar shading, etc.

The same deduction, equal to 110%, is envisaged for expenses incurred from 1 July 2020 to 31 December 2021 relating to:

- specific anti-seismic interventions on buildings;
- for the installation of solar photovoltaic systems connected to the electricity grid on buildings provided that the installation of the systems is carried out in conjunction with one of the energy requalification or seismic improvement interventions;
- for the installation of infrastructure for charging electric vehicles in buildings.

Also on this occasion the Italian Government was concerned to provide an incentive for demand without worrying about the industrial aspects of the issue.

If it is true, in this case, that the work – in the building sector (i.e. bricklayers etc.) – incentivised by this measure will be referred to Italy and not to production located abroad, it is also true that the Government has not posed any problem from the point of view of the production of the goods that will be used in the building works.

For example, in Italy:

- there is basically no production of photovoltaic panels that will be imported from abroad;
- the sector of production of air conditioning products (in particular boilers) in Italy is experiencing – with some exceptions – a very difficult situation: a substantial part of production has been relocated abroad (Eastern Europe, or even China) and several companies are in difficulty
- no analysis has been made on the industrial sector of construction products, and consequently no measures have been taken for this sector, which has gone through several phases of crisis.

In addition, the construction sector in Italy is characterised by a great pulverisation of tiny companies (with very few employees), so much so that every construction job (from large infrastructure works to small domestic constructions) involves a real jungle of contracts and subcontracts with very critical working and safety conditions (irregular and illegal work, etc.). But no intervention has been put in place by the Government to address this problem.

TOURISM SECTOR

Finally, the Government intervened, again with the Relaunch Decree, to encourage holidays in support of the tourism sector.

An economic incentive is granted, which can be used from 1 July to 31 December 2020, for payments for tourist services used on the national territory. The benefit is intended for households with ISEE (ISEE: indicator of the economic situation of a household) not exceeding €40,000. The maximum amount of the credit is equal to a maximum of €500 per household (€300 for households of two persons; €150 for households of one person).

Public funds for this measure are equal to charges, about €1,7 bn. for the year 2020 and about €733.8 mio. for the year 2021.

THE MEASURES DEFINED BY THE ITALIAN GOVERNMENT ON THE SUPPLY-SIDE

As supply side measures, we are essentially referring to measures aimed at stimulating investment by companies, the size growth of companies, strengthening them in terms of capitalization, etc.).

We will also try to answer the following questions:

- If there are incentives for companies (supply-side), are there any special conditions for obtaining them? (e.g. if a company receiving public subsidies cannot relocate, cannot dismiss workers, etc.).
- Are firms in difficulty excluded from the subsidy and aid scheme?

The measures to support companies are mainly contained in the Relaunch Decree (with the exception of those related to liquidity, which we will discuss in the next chapter).

As a general rule, the measures must comply with the "Temporary Framework" which imposes considerable limitations, especially for companies classified by the European legal framework as "in difficulty"; neo-liberal market logics once again prevail, regardless of any social and industrial considerations. However, a derogation of this kind is introduced: aid schemes granted, at national or territorial level, under the Temporary European Framework on State aid in the emergency by COVID-19 are also open to companies that are obliged to repay illegal and incompatible aid already received. Such companies will have access to Temporary Framework aid schemes net of the amount due and not reimbursed, including interest accrued up to the date of disbursement.

The main measures in favour of companies provided for in the Relaunch Decree can be classified as follows:

- tax advantages;
- contributions;
- strengthening of equity;
- financing funds;
- horizontal measures;
- measures to support export/internationalisation;
- measures by Local Authorities.

We will try to examine them specifically.

FISCAL ADVANTAGES

The first, and strongest, measure in terms of tax benefits consists in the cancellation of the payment of the IRAP (Regional Tax on Production Activities) tax, i.e. a tax that is applied on the net production of companies that is generally calculated by subtracting production costs from the value of production (excluding from these costs those for personnel, provisions, depreciations).

It is a tax whose revenue is mainly used to finance the health service.

The Relaunch Decree, therefore, cancels the obligation for companies to make the following payments:

- of the 2019 IRAP instalment balance;
- the first instalment of the 2020 IRAP advance payment (40%).

In essence, therefore, it is as if companies were discounted the payment of one year of IRAP, split between the part in charge of 2019 (balance instalment) and the one charged to 2020 (the first instalment).

The condition to access this tax advantage is that the revenues of companies (excluding financial companies) and the self-employed must not exceed €250 mio. in 2019.

The revenue volume of €250 mio. is quite high: it should be borne in mind that some companies that are part of large groups and/or subsidiaries of multinationals such as Magneti Marelli (Electronic Systems), ABB (Process Solutions), several companies of the Marcegaglia Group, Kone (Kone Spa), Bormioli (Pharma), Saint Gobain fall under this ceiling, Streparava, Schneider Electric, Oracle, Lactalis Italia, Hitachi (Metals), Valeo, Basf Poliuretani Italia, Bosch Rexroth Oil Control, Comau, Sidel, Komatsu Italia Manufacturing, Almaviva, Schindler, Federal Mogul Operations Italia, Hanon Systems, Mitsubishi Electric Hydronics, etc.

The costs of this measure are estimated at almost €4 billion (3,952 billion, to be precise); a fund of €448 mio. is set up to compensate Regions and Autonomous Provinces for the loss of revenue.

No social commitment (e.g. maintaining employment levels, prohibition to relocate production abroad, application and respect of National Labour Agreements, etc.) is provided for companies to access this measure.

This measure applies within the limits and conditions set out in the European Commission Communication of 19 March 2020 C(2020) 1863 final "Temporary framework for State aid measures to support the economy in the current COVID-19 emergency", as amended.

Among the general conditions set out in the "Temporary Framework" are those that state that aid may not be granted to companies that were already in difficulty on 31 December 2019. The only exception to this general principle is that aid may be granted to micro or small enterprises which were already in difficulty on 31 December 2019,

provided that they are not subject to collective insolvency proceedings under national law and have not received rescue or restructuring aid.

In general, therefore, European rules exclude from the State aid scheme companies that were already in difficulty on 31 December 2019 (2019 was not a good year for the Italian economy, so it is possible that many companies may already have fallen into a difficult situation in that year; these European rules preclude them from benefiting from aid under the "Temporary Framework" to try to recover a less negative situation).

It would seem paradoxical: state aid, according to European rules, can only be granted to "healthy" companies. This is not a paradox, but a precise political choice: any public intervention, including those classified as state aid, is considered by the European Commission as a distortion of the market and competition, and is therefore to be prevented at all costs (even at the cost of heavy social costs).

A further tax measure in favour of companies is the tax credit for the rental of non-residential and business premises. Businesses and professionals with revenues or fees not exceeding €5 mio. (2019) are entitled to a tax credit of 60% of the monthly amount of the rent, leasing or concession of real estate for non-residential use intended for the performance of the activity. The €5 mio. turnover limit limits this measure to smaller companies, especially craft businesses.

The credit is lowered to 30% in the case of complex service contracts or business rental contracts, including at least one non-residential property intended for the performance of the activity.

The tax credit is due to hotels regardless of the turnover recorded in the previous tax period.

The tax credit is granted on condition that they have suffered a decrease in turnover or fees in the reference month of at least 50 per cent compared to the same month in the previous tax period.

The charges arising from this measure are estimated at €1,5 bn.

Also in this case, the Relaunch Decree does not condition the use of this tax advantage to any social commitment on the part of companies; moreover, it is clear that this measure protects the annuity (i.e. the owners of buildings who rent them out for business activities).

The final date of effectiveness of the so-called super-amortisation is extended from 30 June 2020 to 31 December 2020, i.e. the facility allowing a 30% increase in the acquisition cost for tax purposes of investments in new capital goods. By increasing, for tax purposes, the cost of the investments, companies derive strong advantages in terms of reducing the tax burden: this is one of the measures that forms part of the "Industria 4.0" package decided as early as 2016 by the Italian Government.

As we had already noted with regard to the "Industria 4.0" Plan, all the advantages granted to companies by this package were available without any social or industrial commitment on their part.

The Relaunch Decree also intervenes on the energy consumption tax side by establishing a reduction in the monthly advance payments of excise duty on natural gas and electricity, due from May to September 2020, in particular by providing that they are paid at the rate of 90% of those calculated on an ordinary basis, i.e. on the basis of the previous year's consumption. It is also envisaged that any adjustment payment will be made in a single instalment (by 31 March 2021 for natural gas and by 16 March 2021 for electricity), or, alternatively, to defer the adjustment debt in ten equal monthly instalments to be paid in the period from March to December 2021.

The burden for the State of this measure amounts to €246.9 mio. for the year 2020 and €134.7 mio. for the year 2022.

The Relaunch Decree postpones to 1 January 2021 the entry into force of the plastic tax, i.e. the tax on the consumption of products for single use, as well as the sugar tax, i.e. the tax on the consumption of sweetened drinks. In this case the charges to be borne by the State amount to €199.1 mio. for the year 2020, €120.4 mio. for the year 2021 and €42.2 mio. for the year 2023.

CONTRIBUTIONS

The Relaunch Decree provides for a non-refundable grant in favour of persons carrying out business and self-employment activities and agricultural income, holders of a VAT number with revenues not exceeding €5 mio. in 2019.

The condition to access the contribution is that the amount of the turnover for the month of April 2020 must be less than two thirds of the amount of the turnover for the month of April 2019.

The amount of the non-refundable contribution is differentiated according to three classes of taxpayers; it is determined by applying a percentage to the difference between the amount of the turnover of the month of April 2020 and the amount of turnover of the month of April 2019 as follows:

- 20% for subjects with revenues or compensation not exceeding €400,000;
- 15% for subjects with revenues or compensation between €400,000 and €1 mio.;
- 10% for subjects with revenues or compensation between €1 mio. and €5 mio..

The contribution is in any case due for a minimum value of €1,000 for natural persons and €2,000 for subjects other than natural persons.

According to the maximum turnover limits, this measure is also aimed in particular at small companies.

The charges to be borne by the State amount to €6,192 mio. for the year 2020.

No social commitments are imposed on companies for accessing the measures.

From the point of view of energy expenses, in addition to the tax advantage described in the previous paragraph, the Decree provides that the Regulatory Authority for Energy Grid and Environment (ARERA) for the months of May and June and July 2020 will reduce the expenditure incurred by low voltage connected electrical utilities other than domestic use (i.e. for business activities), with reference to the items on the bill identified as "transport and meter management" and "general system charges".

The burden borne by the State is €600 mio. for the year 2020. This measure, unlike that relating to non-repayable grants, does not provide for turnover limits, so it is open to all companies, and again no commitments are imposed.

Further contributions for companies are provided for workplace safety measures. There are two types of contributions.

The first provide that INAIL (State body: National Institute for Occupational Accident Insurance) can promote extraordinary interventions through incentives to companies that have introduced interventions in the workplace to reduce the risk of contagion, for an amount of €403 mio., plus additional resources, already available, for an amount of €200 mio.

In order for the above-mentioned companies to access the benefit, it is necessary that the interventions for the reduction of the risk of contagion are carried out through the purchase of:

- equipment and equipment for the isolation or distancing of workers, including related installation costs;
- electronic devices and sensors for the distancing of workers;
- equipment for isolating or distancing workers from external users and from the employees of third-party suppliers of goods and services;
- devices for sanitising workplaces; systems and instrumentation for controlling access to workplaces useful for detecting indicators of a possible state of contagion;
- devices and other personal protective equipment.

The maximum amount that can be granted for these interventions is equal to €15,000 for the companies referred up to 9 employees; €50,000 for the companies referred from 10 to 50 employees; €100,000 for the companies referred with more than 50 employees. The grants are granted by automatic procedure, while the additional resources of €200 mio. will be allocated through a call for proposals for investment projects in safe.

The second recognises a tax credit equal to 60% of the expenses incurred, in 2020 and for a maximum of €60,000, for the sanitation of work environments and tools, as well as the purchase of personal protective equipment and other devices to ensure the health of workers and users.

The expenses on which this tax advantage applies are as follows:

a) the sanitation of the environments in which the work and institutional activity is carried out and the tools used in the context of these activities;
b) the purchase of personal protective equipment, such as masks, gloves, visors and goggles, protective suits and footwear;
c) the purchase of detergents and disinfectants;
d) the purchase of safety devices other than those referred to in point b), such as thermometers, thermoscanners, carpets and decontaminating and sanitising trays, including any installation costs;
e) the purchase of devices to ensure interpersonal safety distance, such as barriers and protective panels, including any installation costs.

The cost of the latter measure is €200 mio..

A similar measure has also been decided in favour of business activities in places open to the public (e.g. bars, canteens, catering, hotels, camping, bathing establishments, amusement parks, cinemas, etc.); in this case too the burden is €2 bn.

These incentives in favour of companies to implement safety measures in the workplace are very serious: in total the State spends €803 mio. (not counting, therefore, contributions to catering activities, etc.) to pay for the costs of safety in the workplace, i.e. a measure that according to Italian law (Civil Code) entrepreneurs are obliged to guarantee in order to carry out business activities. Even more serious is the fact that these contributions have not been linked to precise conditions of use, in particular, the obligation for companies to agree with the trade union what safety measures to implement thanks to the use of these resources has not been established. This aspect is very serious because companies are reorganising their workplaces in conflict with the workers and the union.

STRENGTHENING OF EQUITY

The most important measures of the Relaunch Decree are those related to the strengthening of companies' assets. There are two types of measures on the basis of company size, one expressly dedicated to small to medium-sized companies, the other to companies set up as joint-stock companies, also with shares listed on regulated markets (the larger companies with more than €50 mio. of annual revenues).

The first concerns the strengthening of the capital of medium-sized companies.

To access this measure (which will be described below) companies must meet the following conditions:

- they must be properly constituted and registered in the business register in the form of joint-stock companies or cooperative societies (financial and non-financial holding companies and insurance companies are excluded);
- they must have an amount of income exceeding five mio. euros (ten mio. in the case of the SME Equity Fund) and up to €50 mio., not taking into account income earned within the group;
- have suffered, due to the epidemiological emergency from COVID-19 in March and April 2020, an overall reduction in the amount of the same revenues compared to the same period of the previous year of no less than 33 per cent;
- deliberated and implemented, after the entry into force of the decree in question and by 31 December 2020, a fully paid-in capital increase of not less than €250,000 for access to the SME Equity Fund.

Further conditions for accessing the SME Equity Fund (and the tax credit on losses incurred in 2020, which we will see below) are as follows:

a) as of 31 December 2019 they did not fall into the category of companies in difficulty;
b) they are in a regular contributory and fiscal situation;
c) they are in compliance with the provisions in force regarding building and urban planning regulations, work, accident prevention and environmental protection;
d) have not received and, subsequently, have not reimbursed or deposited in a blocked account any aid deemed illegal or incompatible by the European Commission;
e) are not in the impeding conditions provided for by the Anti-Mafia Code;
f) have not recorded a definitive conviction against the directors, shareholders and beneficial owner, in the last

five years, for offences committed in violation of the rules for the repression of tax evasion;

g) only in the case of access to the SME Equity Fund, they have fewer than 250 employees.

The first measure for the strengthening of the capital of medium-sized companies provides that persons making cash contributions by participating in the increase in the share capital of one or more companies are entitled to a tax credit equal to 20% of the investment. The maximum amount of the cash contribution on which the tax credit can be calculated is €2 mio. Basically, it is a measure to encourage people to invest in the capital of SMEs through the tax credit on their investment.

The second measure to strengthen the capital base of medium-sized companies is the tax credit on losses recorded in 2020, following the approval of the financial statements for the year 2020. The tax credit is equal to 50% of losses exceeding 10% of shareholders' equity, gross of the losses themselves, up to 30% of the capital increase carried out.

The benefit lapses, with the obligation to repay the amount, if the company distributes reserves of any kind before 1 January 2024.

For the use of tax credits on contributions in cash (first measure) and on losses recorded in 2020 (second measure), public expenditure is authorised up to a total limit of €2 bn. for the year 2021.

The third measure to strengthen the capital base of medium-sized companies is the creation of a fund to support and relaunch the Italian economic-productive system, called the SME Equity Fund (Fondo Patrimonio PMI). The fund is aimed at subscribing by 31 December 2020 to newly issued bonds or debt securities issued by companies for a maximum amount equal to the lower amount: three times the amount of the capital increase; and 12.5% of the amount of revenues.

Different criteria for the determination of the maximum amount are applied when the company is a beneficiary of loans with a public guarantee, or aid in the form of subsidised interest rates. In this case, the sum of the guaranteed amounts, the subsidised loans and the amount of the financial instruments subscribed by the SME Asset Fund may not exceed the greater of 25% of the amount of revenue; double the company's personnel costs for 2019; the company's liquidity requirements for the eighteen months following the granting of the aid measure, as resulting from a self-certification by the legal representative.

The financial instruments may be issued in derogation of the limits laid down in Civil Code, under which the company may issue bearer or registered bonds for a total amount not exceeding twice the share capital, the legal reserve and the available reserves resulting from the latest approved financial statements.

The management of the fund is entrusted to a public company 100% owned by the Ministry of the Economy, called the National Agency for the Attraction of Investments and Business Development (Invitalia).

The financial instruments issued for the subscription of the fund have a maturity of six years, with an early redemption option in favour of the issuer three years after subscription.

The company issuing the debt securities undertakes:

a) not to deliberate or make, until the financial instruments have been fully redeemed, distributions of reserves and purchases of own shares or units and not to proceed with the redemption of shareholders' loans;
b) to allocate the financing to support personnel costs, investments or working capital employed in production plants and business activities located in Italy;
c) to provide the managing party with a periodic report in order to allow verification of the commitments undertaken.

The SME Equity Fund has an initial allocation of €4 bn. for the year 2020.

Some comments on the SME Equity Fund. First of all, the Decree speaks of bonds or debt securities, but not equities (shares). This is not a minor difference: bonds are debt securities issued by a company to finance itself; they give the buyer the right to repayment of the capital plus interest (remuneration), but they do not give the right to voting rights, i.e. participation in the governance of the company: therefore the State would only be the lender.

The holder of debt securities of a company, unlike the shareholder, does not participate in the management activity of the issuer, not having the right to vote in the shareholders' meetings. It is assumed, therefore, that the objective of this rule is to have the debt securities issued by companies purchased by a public fund, but without this entailing anything in terms of participation in the company whose capital has been increased.

Again: it is true that there is provision for the redemption of these securities with the relative remuneration, but in reality the Relaunch Decree provides that, in certain cases that will have to be regulated by a subsequent Decree, a reduction in the redemption value of the financial instruments is possible: this means a discount in favour of the companies that will have to redeem these financial instruments to the State.

Finally: the obligation to use these funds to "allocate the financing to support personnel costs, investments or working capital employed in production plants and business activities located in Italy" does not mean that these companies are prohibited from relocating part of their activities abroad or reducing employment levels. Once again, therefore, public support to companies takes place without social constraints.

The second measure concerns the strengthening of equity of companies set up as joint-stock companies, also with shares listed on regulated markets, this tool is an Asset labelled Relaunch Equity (Patrimonio Rilancio).

In fact, with this measure, Cassa Depositi e Prestiti (CDP) is authorised to set up an Asset (Patrimonio) to which assets and legal relations are contributed by the Ministry of Economy and Finance (MEF). This contribution by the MEF is matched by the issuance by CDP S.p.A. of participating financial instruments.

The resources of the Assets are used to support and relaunch the Italian economic and productive system.

The issue of bonds or other debt financial instruments is permitted for the financing of Assets or individual subfunds. In the event of a shortfall in the Assets, the state's guarantee of last resort is granted for the bonds of the Assets. The State guarantee may also be granted in favour of the holders of the bonds issued to finance the Assets, under specific conditions.

The Assets are fully tax-exempt: interest and other income on the securities issued by the allocated assets and its subfunds are subject to substitute tax at a rate of 12.5%.

The Assets cease ex lege after twelve years from their incorporation; however, their duration may be extended or brought forward by a resolution of CDP's Board of Directors, at the request of the Ministry of Economy and Finance.

As mentioned above, the resources of the Assets are used to support and relaunch the Italian productive economic system; this support must take place according to the priorities defined, in relation to sectors, supply chains, industrial policy objectives, in the National Reform Plan, in a specific chapter dedicated to economic planning, i.e. the NRP attached to the Economic and Financial Document.

Consequently, the assets allocated must operate in the forms and under the conditions set out in the Temporary Framework, i.e. they must operate at market conditions.

The interventions of the allocated assets relate to joint-stock companies, also with shares listed on regulated markets, including those set up in the form of cooperatives:
a) have their registered office in Italy;
b) do not operate in the banking, financial or insurance sector;
c) have an annual turnover exceeding €50 mio..

The requirements for access, conditions, criteria and procedures for the intervention of the Asset (Patrimonio) are defined as follows by decree of the Minister of Economy and Finance, after consultation with the Minister of Economic Development: the concrete contents of the modalities of intervention of this Fund will therefore be defined at a later date. However, some general principles have already been outlined.

First of all, preferentially, the Assets are used to:
- subscribe convertible bonds;
- participate in capital increases and;
- purchase shares listed on the secondary market in the case of strategic operations.

The choice of financial instruments through which this Fund (Asset) can intervene is not accidental but responds to a very precise political choice; that is, to limit public participation in the companies that will be financed with these public funds.

For example, convertible bonds (the first point) are securities that give their holder the right to decide whether to remain a creditor of the issuing company for the entire duration of the loan, or whether, in certain periods, to convert its status from creditor to partner (shareholder). Therefore, it is not certain that the option of becoming a full shareholder of the company will be exercised by the Asset.

Again, the wording "capital increases" (the second point) is quite general, as these operations can take place in different ways, for example through:

- with a new issue of shares assigned against payment of consideration;
- with the issue of savings shares;
- by issuing bonds convertible into shares.

Please note that bonds and savings shares do not carry voting rights; therefore, also in this case the Public Fund would be limited to providing (public) funds but without any form of public participation in the company being financed.

Finally, the possibility of purchasing shares on the secondary market (third point) is envisaged, i.e. on that market where the exchange of securities already in circulation takes place. In this case, the Decree says that the Asset will be able to purchase shares (i.e. those securities which, for all intents and purposes, give the right to vote in companies) in the case of strategic transactions. The use of the wording "in the case of strategic transactions" suggests that only in this case can the Asset become a shareholder (with voting rights) of the company to which it contributes capital.

Above all, however, a specific passage of the Decree, albeit in a "sibylline" manner, seems to preclude the possibility of the public instrument entering into the ownership of companies: the use and investment operations carried out by Cassa Depositi e Prestiti using the Asset do not activate any possible contractual and/or statutory change of control clauses or similar provisions. This formulation, therefore, bodes well for the prohibition of the public instrument's entry into corporate governance.

In fact, a "change of control" is defined as the circumstance in which the controlling structure of a company changes, following a sale of shareholdings or as a result of an extraordinary operation (e.g. merger, spin-off, capital increase). In the practice relating to the ownership structure of joint-stock companies, the holders of shareholdings have an interest in ensuring homogeneity in the shareholding structure and a balance in relations between shareholders: in order to pursue this interest, it is common to provide, in the by-laws, for a pre-emption clause in favour of existing shareholders, in the event of the sale of shareholdings put up for sale by other shareholders. This is an instrument which in some way limits the general principle of the free movement of shareholdings: in this case the limit of "free movement of shareholdings" would be to the detriment of the State, in order to protect private shareholders and their economic interests.

There seems to be more room for the possibility of intervening in support of companies in crisis, as the Decree states that interventions may be carried out in relation to restructuring operations of companies which, despite temporary financial or equity imbalances, are characterised by adequate profitability prospects. However, the term "temporary imbalances" seems to limit considerably the possibility of intervention.

In identifying the interventions, the subsequent decree to be implemented shall take into account the impact of the company with reference to the following fields:

- technological development,
- critical and strategic infrastructure,
- strategic production chains,
- environmental sustainability
- other general purposes such as: circular economy, youth and women's enterprises, etc..
- logistics and supply network,
- employment and labour market levels.

These are certainly important areas, but: a) much will depend on the concrete provisions of the subsequent decree; b) the limit represented by the limitation of public participation in the ownership of companies can be very heavy to determine some outcomes instead of others.

Also in this case, in order to finance the activities of the Asset, the issuance of bonds or other debt financial instruments is allowed, also in derogation of the Civil Code rules that set limits to the issuance of bonds. In fact, according to the Civil Code, in general, except for specific exceptions, the company may issue bonds for a total amount not exceeding twice the share capital, the legal reserve and the available reserves resulting from the latest approved financial statements; however, in order to guarantee greater resources to the Asset (and therefore to private companies), this limit is waived.

In order to provide this Asset with adequate financial resources, the allocation of €44bn. of specially issued government bonds to CDP is authorised for the year 2020.

FINANCING FUNDS

The Relaunch Decree provides for further funding of the MEF fund to cover SACE guarantees in favour of credit insurance companies, which is increased by 30 billion euros for the year 2020 (Liquidity Decree), of which €1,700 mio. for SACE guarantees in favour of trade credit insurance.

The Guarantee Fund for partial credit insurance granted by credit institutions in favour of small and medium enterprises increased by €3.95 bn. for the year 2020.

A further €250 mio. are allocated to ISMEA (Agricultural and Food Market Services Institute) for the year 2020.

HORIZONTAL MEASURES

To be precise we have to say that this paragraph contains only a part of the so-called horizontal measures, i.e. those referring to R&D, start-ups, etc. In reality, the whole set of measures taken by the Italian Government can be qualified as a "horizontal measures", meaning by this term any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity towards sectors, technologies or tasks that are expected to offer better prospects for economic growth. That is to say, all those fiscal measures, incentives, contributions, different regulations, etc. aimed at ensuring the best possible environment for companies.

Several measures can be aggregated in this paragraph and are listed below.

With regard to start-ups, in order to strengthen, on the whole national territory, the interventions in favour of innovative start-ups, the Decree:

- Refinances the "Smart&Start Italia" measure by €100 mio. for the year 2020;
- It guarantees €10 mio. for the year 2020 for the granting of non-repayable grants to innovative start-ups for the acquisition of services provided by incubators, accelerators, innovation hubs, business angels, etc.;
- It will provide €200 mio. for the year 2020 to the Venture Capital Support Fund by increasing the maximum amount of soft loans that each innovative start-up and innovative SME will be able to obtain;
- It intervenes in the tax credit in research and development, including expenses for extra muros research contracts stipulated with innovative start-ups, among the expenses that contribute to forming the basis for calculating the tax credit, for an amount equal to 150 per cent of their amount;
- Reserve a share of €200 mio. of the resources already allocated to the Guarantee Fund for Small and Medium Enterprises, to the issue of guarantees in favour of innovative start-ups and innovative SMEs;
- Provides de minimis tax incentives for investment in innovative start-ups;
- It establishes a Fund at the MISE, with an initial endowment of €4 mio. in 2020, to support the development of the digital entertainment industry at national level, called "First Playable Fund".

Public funds of €314 mio. are foreseen for these measures for 2020, €70.8 mio. for 2021 and €40.5 mio. from 2022 onwards.

The Relaunch Decree establishes a fund called the Technology Transfer Fund, with an endowment of €500 mio. for 2020, aimed at promoting initiatives and investments useful for the valorisation and use of research results in companies operating on the national territory, with particular reference to innovative start-ups and innovative SMEs in order to support and accelerate the processes of innovation, growth and restart of the national production system, strengthening links and synergies with the system of technology and applied research. These initiatives are aimed at

fostering the collaboration of public and private entities in the implementation of innovation and spin-off projects, and the Technology Transfer Fund for these purposes can intervene through indirect participation in risk and debt capital.

The Relaunch Decree also makes public funds available for the creation of two Research Centres.

In the first case, the expenditure of €20 mio. for 2020 is authorised for the creation of a research infrastructure of national interest called the National Centre for Research, Innovation and Technology Transfer in the field of mobility and automotive based in Turin: this research infrastructure is part of the green new deal programme and the Transition 4.0 Plan, in order to favour the ecological transition processes in the sectors of public and private sustainable mobility and the competitiveness of the automotive industry. This Centre should encourage and organise collaborative research activities between enterprises and other research centres, technology demonstrators also through the implementation of experimental pilot lines for the demonstration of production techniques and for the experimentation of new forms of mobility, including electric mobility, autonomous guidance and further applications of Artificial Intelligence to the mobility sector in general.

In the second case, expenditure of €10 mio. is authorised for 2020 and €2 mio. per year from 2021, as a contribution from the State to the promotion and financing of highly innovative research projects in collaboration with companies by the Human Technopole Foundation, through the structure called "Centre for innovation and technology transfer in the field of life sciences" based in Lombardy. The purpose of the authorisation of expenditure is to promote innovative processes proposed by public and private entities in the Lombardy region's research and innovation system, such as scientific institutions, universities, the National Research Council, research centres, small and medium enterprises and innovative start-ups. This second Centre should foster collaboration between private actors of the innovation system and national and European research institutes, ensuring the wide dissemination of research results and knowledge transfer and supporting patenting and intellectual property exploitation. The Centre encourages collaborative research activities between companies and innovative start-ups for the development of biotechnologies, artificial intelligence technologies for genetic, proteomic and metabolomic analysis, technologies for diagnostics, active surveillance, protection of fragile individuals, improvement of quality of life and active ageing.

Finally, the Relaunch Decree also intervenes on Individual Savings Plans from the point of view of their use for investments in companies.

Previously, the 2017 Budget Law introduced a system of tax benefits to encourage long-term investments (for at least five years) in the real economy, establishing that capital income and other income deriving from specific "qualified investments", held for a minimum period of 5 years, are exempt from tax. Individual Savings Plans (PIR), which invest in Italian and European companies, are among the instruments that can benefit from the exemption, subject to the 5-year holding limit of €30.000 per year and, in any case, a total of €150.000. They are managed by financial intermediaries (e.g. investment funds) and insurance companies. With the Relaunch Decree, the investment limits (and therefore the tax benefits) are extended: from €30,000 to €150,000 per year of investments, and from €150,000 to €1,500,000 in total invested. Obviously, these advantages are covered by public funds: €10.7 mio. for the year 2020; €55.2 mio. for the year 2021; €93.3 mio. for the year 2022; €137.8 mio. for the year 2023; €188.8 mio. for the year 2024; €240.2 mio. for the year 2025; €291.7 mio. for the year 2026; €343.2 mio. for the year 2027; €394.7 mio. for the year 2028; €446.2 mio. for the year 2029; €450.5 mio. annually from the year 2030.

THE MEASURES TO SUPPORT EXPORT/INTERNATIONALISATION

In order to support the internationalisation of Italian companies, the Relaunch decree refinances the integrated promotion fund for a further €250 mio. (which therefore reaches a total of €400 mio.). This Fund, set up at the Ministry of Foreign Affairs and International Cooperation, is used to carry out extraordinary communication campaigns to support Italian exports and the internationalisation of the national economic system, also making use of ICE-Agenzia italiana per the internationalization of companies and for the attraction of the investments. It is also used to strengthen the promotion activities of the country system

carried out, also through the network abroad, by the Italian Ministry of Foreign Affairs. It may also grant non-repayable co-financing for internationalisation.

The Decree provides for a further refinancing of the revolving Internationalisation fund for €200 mio.. The total cost of these measures is €450 mio.

THE MEASURES BY LOCAL AUTHORITIES

In this section, the Relaunch Decree lists all the possibilities available to Local Authorities (Regions, Autonomous Provinces, other territorial authorities, Chambers of Commerce) to support companies.

Basically, this set of measures transposes the content of the "Temporary Framework" into internal legislation.

The first measure provides for the possibility for Local Authorities to grant aid, from their own resources, in the form of direct grants, refundable advances or tax breaks. The aid granted can reach €800,000 per enterprise (lower values for fishing and agriculture).

Local authorities may also adopt aid measures, from their own resources, in the form of loan guarantees to businesses, in order to cope with the effects of the current emergency; for loans due after 31 December 2020, the amount of loan capital may reach: a) double the beneficiary's annual wage bill for 2019; b) 25% of the beneficiary's total turnover in 2019.

Other measures that can be taken by Local Authorities are the following.

- Aid in the form of subsidised interest rates for loans to businesses for both investment and working capital requirements and are granted to businesses directly or through banks or other entities authorised to provide credit in Italy. Loans may be granted at a subsidised interest rate at least equal to the base rate (-31 basis points per year) applicable on 1 January 2020.
- Establish aid schemes in favour of relevant COVID-19 and antiviral research and development projects, in the form of direct grants, repayable advances or tax breaks. The research and development concerns vaccines, medicines and treatments, medical and hospital equipment, disinfectants, protective clothing and devices, process innovations for efficient production of the necessary products. Eligible costs for these research and development activities include personnel costs, equipment costs, costs for digital and computer services, diagnostic tools, data collection and processing, experiments, patents, etc. The aid intensity for each beneficiary may cover 100% of eligible costs for fundamental research and up to 80% of eligible costs for industrial research and experimental development. The latter percentage may be increased by 15 percentage points in case of funding also from other Member States or cross-border collaborations with other research centres.
- To adopt aid measures, using its own resources, to grant investment aid for the construction and improvement of testing and upscaling infrastructure to test, develop and scale up products (medicines, vaccines, intermediate products, active pharmaceutical ingredients and raw materials, medical devices, medical and hospital equipment, disinfectants, etc.) to the first industrial application before mass production. The aid intensity does not exceed 75% of the eligible costs, but even in this case it may be increased by 15 points under certain conditions.
- To adopt aid measures, using its own resources, to set up investment aid schemes for the production of COVID-19 related products (see above). Aid is granted in the form of direct grants, repayable advances or tax breaks. The aid intensity shall not exceed 80% of eligible costs, but may be increased by 15 points under certain conditions.
- Take measures to help, using its own resources, to contribute to the wage costs, including social security and welfare contributions, of companies, including the self-employed, and to avoid redundancies during the COVID-19 pandemic. This aid is granted in the form of schemes for enterprises in certain sectors or regions or of certain sizes, particularly affected by the COVID-19 pandemic. The subsidy for the payment of wages is granted for a period not exceeding twelve months, for employees who would otherwise have been made redundant as a result of the suspension or reduction of business activities due to the COVID-19 pandemic and on condition that the employees benefiting from it continue to work continuously throughout the period for which the aid was granted. The monthly wage subsidy does not exceed 80% of the gross monthly salary (including employer's social security contributions) of the beneficiary staff. The wage subsidy may be combined

with other generally available or selective employment support measures. Wage subsidies may also be combined with tax deferrals and deferrals of social security contribution payments.

As these measures deal with subsidies that can be activated by Regions, Autonomous Provinces, Territorial Authorities and Chambers of Commerce, the Decree does not quantify the expenditure. The newspaper "Il Sole 24 Ore" reported the news (Friday 22 May) of the approval by the European Antritrust of the plan made up of the measures in these articles, indicating the total amount of the interventions to be €9 bn.

With the exception of the measure aimed at avoiding redundancies (which, however, will be achieved using public funds), no social or industrial objective is imposed on the beneficiary companies to access these support measures.

A further measure that passes through the Local Authorities is the establishment of the Liquidity Fund for the payment of debts. This Fund, with an endowment of €12 bn. for 2020, anticipates the liquidity allocated to the payment of the debts of Regions, autonomous provinces, local authorities and the National Health Service to companies. Surely it should be acknowledged that the delay in the payment of public administrations' debts constitutes a criticality well before the current health emergency, but at the same time it should be noted that: a) local authorities often find it difficult to pay the debts they have towards private companies because of the austerity rules that weigh on their budgets; b) if it is right to pay a debt (for the purchase of goods or services), it is not clear why companies should be guaranteed this payment in the face of social emergencies that have not benefited from the same attention.

The measures to support companies' need for liquidity

THE GENERAL PURPOSE OF THE MEASURE

With the outbreak of the coronavirus pandemic, COVID Confindustria (the association representing entrepreneurs) immediately called for action by the Government to guarantee the liquidity of companies.

For access to liquidity, the Italian Government has provided for a strong system of public guarantees, accessible to companies of all sizes, with coverage equal to 90% of the loans granted by intermediaries, which can reach 100% for companies and smaller loans.

The three main measures introduced concern:

- the activation of a new line of state guarantees, granted through SACE S.p.A., for a total amount of €200 billion to be used by the end of the year (€30 billion of which reserved for small and medium-sized enterprises, SMEs);
- the expansion, up to 90%, of the reinsurance quota by the Ministry of Economy and Finance of the export credits insured by SACE itself; this measure would free resources in SACE's budget for another 200 billion, which can be used to grant guarantees at market conditions even after 2020;
- a different articulation, for the current year, of the operation of the Central Guarantee Fund for Small and Medium Enterprises (FCG), also through an increase in the loan coverage quotas and the widening of the range of potential beneficiaries.

According to a document of the Bank of Italy, the total amount of public guarantees to companies is about €450 bn.

Let's examine these measures in detail:
With a specific Law (Liquidity Decree) approved by the Italian Parliament, the Government, in order to ensure the necessary liquidity to companies (other than banks) based in Italy affected by the COVID-19 pandemic, intervened to grant until 31 December 2020 guarantees in favour of banks, national and international financial institutions and other entities authorized to exercise credit in Italy, for financing in any form to the aforementioned companies.

This decision is based on the current guidelines taken by the European Union, which, in view of the effects of the

current emergency, allow for a wider intervention by Member States in order to safeguard companies from a potential and serious liquidity crisis.

The Italian Government uses SACE as a vehicle for this operation: it is a wholly-owned subsidiary of Cassa Depositi e Prestiti and specialises in providing support, especially financial support, to companies (originally, in 1977, it was set up within the then public National Institute of Insurances as a Special Section for Export Credit Insurance; subsequently, the shareholding became the property of the Ministry of Finance (2004) and finally (2012) of Cassa Depositi e Prestiti – which in turn is majority owned by the Ministry of Finance for about 83%).

On the obligations of SACE S.p.A. deriving from the guarantees, the State guarantee is granted by right on first demand and without recourse; the State guarantee is explicit, unconditional, irrevocable and extends to the repayment of the loan capital, the payment of interest and any other accessory charges.

This guarantee scheme, in essence, provides that banks and other financial intermediaries grant loans to companies based in Italy, with the coverage of public guarantees thanks to the intervention of SACE.

The financial commitments undertaken by SACE S.p.A. amount to €200 bn., of which at least €30 bn. are intended to support small and medium-sized enterprises, including self-employed workers and freelancers with VAT registration numbers.

This law excludes from this scheme of guarantees for loans (a) companies that directly or indirectly control a company resident in a country or in a non-cooperative territory for tax purposes and (b) those that are controlled, directly or indirectly, by a company resident in a country or in a non-cooperative territory for tax purposes.

In order to activate this public guarantee system on loans to businesses, specific conditions are provided for.

First of all, the guarantee must be issued by 31 December 2020, for loans not exceeding 6 years, with the possibility for companies to make use of a pre-amortisation of up to 36 months. In addition, and this is a particularly serious issue, as of 31 December 2019 the beneficiary company must not fall within the category of firms in difficulty within the meaning of the European Regulations; moreover, as of 29 February 2020, it must not be included among the impaired exposures in the banking system.

It is clear that the exclusion of companies in difficulty – as defined by EU legislation – and of those that may have impaired loans, very significantly limits the possibility of intervening with public instruments to save – through injections of liquidity – part of the companies in crisis with clear social and industrial consequences.

The constraint determined by the European Regulation is expressly referred to when the conditions for access to this liquidity guarantee scheme are established in detail: the ratio of debt to equity recorded in the last two years by the company may not exceed 7.5, as indicated by Commission Regulation (EU) N. 651/2014, which is an indispensable parameter for the definition of "company in difficulty".

A company in difficulty is a company that meets at least one of the following circumstances:

- in the case of limited liability companies (other than SMEs established for less than three years or with certain characteristics) if it has lost more than half of its subscribed share capital due to accumulated losses;
- in the case of companies where at least some shareholders have unlimited liability for the debts of the company other than SMEs with certain characteristics, if it has lost more than half of its own funds, as shown in the company accounts, due to accumulated losses;
- where the company is the subject of collective insolvency proceedings or meets the conditions under national law for the opening of such proceedings against it at the request of its creditors;
- if the company has received rescue aid and has not yet repaid the loan or withdrawn the guarantee, or has received restructuring aid and is still subject to a restructuring plan;
- in the case of a company other than an SME, if the company has received rescue aid in the last two years:
- the debt/equity ratio of the company has exceeded 7.5 in the last two years, and
- the interest coverage quotient of the company (EBITDA/interests) was less than 1.0.

As seen, the list of circumstances that allow a company to be classified as being in "difficulty" is very wide and, above all, also involves companies that may be in the process of restructuring. This provision, included in the Temporary Framework on State Aid, risks greatly limiting the capacity of public intervention to resolve industrial crises.

The amount of the guaranteed loan shall not exceed the greater of: 1) 25% of the company's annual turnover in 2019; 2) twice the company's personnel costs in 2019.

The guarantee covers the amount of the loan granted within the following percentages:
1) 90% for companies with no more than 5,000 employees in Italy and a turnover of up to €1.5 bn;
2) 80% for companies with a turnover of more than € 1.5 bn. and up to €5 bn. or with more than 5,000 employees in Italy;
3) 70% for companies with a turnover exceeding €5 bn.

The expected costs of accessing this financing are particularly favourable for companies, as the annual fees payable by companies for issuing the guarantee are as follows:
1) for financing of small and medium-sized enterprises, 25 basis points in the first year, 50 basis points in the second and third year, 100 basis points in the fourth, fifth and sixth year in relation to the guaranteed amount;
2) for financing of enterprises other than small and medium-sized enterprises, 50 basis points in the first year, 100 basis points in the second and third year, 200 basis points in the fourth, fifth and sixth year in relation to the guaranteed amount. These fees must be limited to the recovery of costs and the cost of financing covered by the guarantee must be lower than the cost that would have been required by the lender for transactions without the public guarantee.

The role of public intervention, therefore, is aimed at ensuring that companies are provided with a large amount of liquidity at a more favourable cost than under normal market conditions and without the public guarantee.

Rightly, the law has provided that this public guarantee must cover new loans granted to the company – i.e. granted after the entry into force of this decree – in order to prevent companies from using this instrument to replace, at more favourable costs, loans they had already obtained previously.

Further conditions for access to this measure have been established: some have a partially positive character, while others present some criticalities.

The following obligation is certainly positive: the company benefiting from the guarantee, and any other company based in Italy that is part of the same group, cannot approve the distribution of dividends or the repurchase of shares during the year 2020. The purpose of this measure is to prevent the economic resources generated by the business activity, supported by a public guarantee, from being distributed as dividends instead of being used to strengthen the company's equity. However, it is not clear why this limitation applies only for 2020 and not for the entire duration of the guaranteed loan.

From a social point of view, the company benefiting from the guarantee is committed to managing employment levels through union agreements: this means very little and is not a guarantee for the protection of employment levels.

It would have been better to introduce a ban on layoffs during the entire duration of the guaranteed loan. Instead, a company benefiting from this measure will be able to intervene on employment levels simply by trying to reach a trade union agreement: however, this leaves unprotected the workers of companies without a trade union and, even where the trade union is present, there is a risk that employment levels may be reduced.

Nothing is said, in fact, if no agreement can be reached on the management of employment levels, which means full freedom for companies. If the union refuses to sign an agreement providing for redundancies, the company can proceed freely. Obviously, it can be used against companies that want to lay off a kind of moral suasion, but this is often not enough.

The financing covered by the public guarantee must be used to cover the following costs: personnel costs, rent or lease payments for business branches, investments or working capital employed in production plants and business activities located in Italy. Furthermore, companies must undertake not to relocate production: this last aspect

is very important and the hope is that it can also be used to condition the payment to companies of other public aid, not only guarantees on loans granted by banks or financial intermediaries.

A further advantage for companies is that a simplified procedure is followed for the issue of guarantees covering loans to companies with no more than 5,000 employees in Italy and a turnover value of up to €1.5 bn. (i.e. the vast majority of Italian companies).

The company interested in granting a loan guaranteed by SACE S.p.A. submits an application for a loan guaranteed by the State to a lender; if the decision to grant the loan is positive, the lender sends the request to SACE S.p.A., which examines the application verifying the positive outcome of the lender's deliberative process and issuing a unique identification code for the loan and the guarantee; therefore the lender proceeds to issue the loan backed by the guarantee granted by SACE S.p.A.

As can be seen, public control over this procedure is very limited and basically the vast majority of companies will be able to access loans in an almost automatic way.

Only in the event that the company is larger than the above-mentioned thresholds, the issue of the guarantee depends on the decision taken by decree of the Minister of Economy and Finance, after consultation with the Minister of Economic Development.

In order to take this decision, the Ministry must take into consideration the role of the company from the point of view of:
a) contribution to technological development;
b) belonging to the logistics and supply network;
c) impact on critical and strategic infrastructures;
d) impact on employment levels and the labour market;
e) specific weight within a strategic production chain.

Examination of the above points appears to be very useful in assessing companies' requests for access to this measure, but then it would have been necessary to extend them to a much wider range of companies which instead, as we have seen above, will automatically access guaranteed loans.

Finally, again to ensure the necessary liquidity for companies, SACE S.p.A., until 31 December 2020, grants guarantees in favour of banks, national and international financial institutions and other entities that subscribe in Italy to bonds or other debt securities issued by companies to which a primary rating agency assigns a class at least equal to BB- or equivalent.

INSURANCES SYSTEM TO SUPPORT INTERNALISATION

Further measures have been decided as "Measures for export support, internationalisation and business investment". The State guarantee system for insurance commitments undertaken by SACE has been reformed and the tasks of the Company itself have been extended and strengthened. SACE S.p.A. must encourage the internationalisation of the Italian production sector, giving priority to commitments in sectors that are strategic for the Italian economy, as well as commitments for operations destined for countries that are strategic for Italy. For the purposes of internationalisation, the national agricultural, the tourism and agri-food, the textile, fashion and accessories, trade fairs, the development of platforms for the online sale of Made in Italy products, conferences, Italian chambers of commerce abroad, and events, including digital events, aimed at supporting the development of markets, training and Made in Italy in the sports, culture, art, cinema, music, fashion, design and agri-food sectors, are to be considered strategic.

The law introduces – as of 1 January 2021 – a new co-insurance system for non-market risks, under which commitments arising from SACE S.p.A.'s insurance business are assumed by the State and SACE S.p.A. in a proportion equal to 90 and 10 per cent respectively.

These SACE operations are decided on the basis of the annual activity plan approved by the Committee for Public Financial Support for Exports, which is established at the Ministry of Economy and Finance and which defines the planned number of operations to be insured, broken down by geographical areas and macro-sectors, highlighting the number of operations to be submitted for prior authorisation by the Minister of Economy and Finance.

A new form of SACE's operations is then introduced to support and relaunch the economy. In particular, the Company is authorised to issue, at market conditions and in compliance with EU regulations, guarantees in any form to banks, national and international financial institutions and other entities authorised to exercise credit in Italy, for loans in any form granted to companies based in Italy, up to a maximum total amount of €200 bn. SACE's commitments are guaranteed by the State.

CRUISE AND DEFENCE SECTORS

This law provides that the following operations in the cruise sector are guaranteed by the State:

a) operations already authorised;
b) operations eligible for the guarantee whose claims have already been submitted by SACE S.p.A.; further transactions approved by SACE S.p.A. by 9 April 2020, up to a maximum amount of €2.6 billion.

This law also authorises the Minister of Economy and Finance to issue the State guarantee in favour of SACE S.p.A. for the year 2020:

a) for the cruise sector, the State guarantee in favour of SACE S.p.A. on new operations approved during the year 2020, for a maximum amount in terms of flow of €3 bn.; the total accumulated exposure retained by SACE S.p.A. and that transferred to the State on the sector may not exceed the maximum share of 40% of the entire outstanding risk portfolio retained by SACE S.p.A. and transferred to the State;
b) for the defence sector, the State guarantee in favour of SACE S.p.A. on new transactions, exclusively with a sovereign counterparty, approved during the year 2020 may not exceed the maximum amount in terms of flow of €5 billion; the total cumulative exposure retained by SACE S.p.A. and that transferred to the State on the sector may not exceed the maximum share of 29% of the total outstanding risk portfolio retained by SACE S.p.A. and transferred to the State.

REINSURANCE SYSTEM

Finally, as of 9 April 2020 (date of entry into force of the decree law), 90% of the commitments outstanding at that date undertaken by SACE S.p.A. arising from the insurance and non-market risk guarantee business under European Union regulations are reinsured by the State, while by decree of the Ministry of Economy and Finance, 90% of commitments in the period between 9 April 2020 and 31 December 2020 can be reinsured.

GUARANTEE FUND FOR SMES

Finally, the same law also provides for a further instrument to support the liquidity of businesses: this is the strengthening of the Guarantee Fund for SMEs, a fund introduced since 1996 to support small and medium-sized Italian enterprises by facilitating their access to credit:

a) the guarantee is granted free of charge;
b) the maximum amount guaranteed per individual enterprise is raised to EUR 5 million. Companies with no more than 499 employees are eligible for the guarantee;
c) the coverage percentage of the direct guarantee is increased to 90% of the amount of each financial transaction for financial transactions with a duration of up to 72 months. The total amount of the above-mentioned financial transactions may not exceed, alternatively: 1) double the beneficiary's annual wage bill (including social security contributions and the cost of personnel working at the company's site but formally on the payroll of subcontractors) for 2019; 2) 25% of the beneficiary's total turnover in 2019; 3) the requirements for working capital and investment costs in the following 18 months, in the case of small and medium enterprises, and in the following 12 months in the case of enterprises with no more than 499 employees; 3-bis) for enterprises with multi-year production cycles, the revenues from sales and services, added to changes in inventories of work in progress, semi-finished and finished products for 2019.

As can be seen, therefore, we are talking about very substantial economic figures.

There are also other favourable conditions for companies accessing this Guarantee Fund:

- admission to the intervention as a guarantee of financing against debt rescheduling operations provided that the new financing provides additional credit equal to at least 10% of the residual debt;

- the automatic extension of the guarantee in the event of suspension of the payment of the amortisation instalments or of the capital portion only related to the COVID-19 emergency;
- the duration of the guaranteed loans has been extended from 6 to 10 years and the interest rate to be applied to the guaranteed loans has also been recalculated;
- the increase in the coverage of the Reinsurance Fund from 90 to 100 per cent of the amount guaranteed by the Confidi or other guarantee fund,
- access to the Fund's guarantee without the application of the credit assessment model, although companies with exposures classified as non-performing are excluded from the guarantee;
- the cumulation of the Fund's guarantee with an additional guarantee up to the coverage of 100% of the loan granted to beneficiaries with an amount of income not exceeding €3.2 million;
- for guaranteed loans exceeding €25,000, companies are now allowed to make use of a pre-amortisation of up to 24 months.

AGREEMENTS WITH THE EUROPEAN INVESTMENT BANK

The MEF is authorised to enter into the necessary agreements with the European Investment Bank to enable Italy to participate in the Pan-European Guarantee Fund (€25 bn.), set up by the European Investment Bank Group to support Member States in tackling the crisis resulting from the COVID-19 pandemic. The costs are estimated at €1 bn. (resources in stock + annual budget law, based on the evolution of the Guarantee Fund's financial needs).

The objective of the Fund set up by the EIB is to provide mainly small and medium-sized enterprises (SMEs), mid-cap companies, large enterprises, as well as public bodies, with liquidity and access to finance to cope with the consequences of the pandemic emergency. The Fund would provide up to around EUR 200 billion mainly in the form of direct (EIB or European Investment Fund/EIF, both with AAA creditworthiness) or indirect (through financial intermediaries and national promotion banks) guarantees and loans. The Fund will be made up of guarantees (irrevocable, unconditional and first loss) provided by EU Member States to the EIB Group (EIB and EIF) on a pro rata basis, in relation to their shares in the EIB. Italy's contribution to the guarantee, equal to its capital share in the Bank, amounts to 18.78% of €25 bn, i.e. €4.695 bn. representing the maximum possible loss.

The Fund would allow the EIB Group to provide up to an additional € 200 bn., but the leverage will depend on the type of instrument used and the actual value of the multiplier will depend on the basket of products financed, which in turn depends on market needs, absorption capacity and operational constraints of the Fund.

The Fund will also be open to the contribution of the European Commission and will be temporary in nature.

The characteristics of the Fund, including eligibility criteria, the type of products offered, the price structure and risk levels would be approved by Member States upon signature of the contribution agreements. The Fund will finance operations in the contributing States with a single concentration link relating to the three largest contributors (Italy, France and Germany, which hold the same share in EIB capital, and will therefore contribute to the Fund in the same way).

Sectorial measures

A sectoral approach does not exist in the Italian Government's plan. This chapter refers to specific sectors of the economy, but only from the point of view of public incentives to private firms, not by public plan or public tools of intervention.

TEXTILE AND CLOTHING SECTOR

The Relaunch Decree authorises the expenditure of €5 mio. for the year 2020 for the disbursement of non-repayable grants, recognised to a maximum of 50% of eligible expenses, in order to support the textile, fashion and accessories industry at a national level, with particular regard to start-ups investing in design and creation; to promote young talents in the textile, fashion and accessories sec-

tor that enhance Made in Italy products with high artistic and creative content. It is left to a subsequent Decree of the Minister of Economic Development to establish the procedures for the implementation of this measure, with particular regard to the presentation of the applications for grants, the criteria for their selection, the eligible expenses, the modalities of contributions, etc.

In addition, companies in the textile and fashion, footwear and leather goods industries are granted a tax credit, equal to 30% of the value of the final inventory, which exceeds the average of the same value recorded in the three fiscal years prior to the current one on 10 March 2020. The tax credit is allocated (paragraph 1) for the explicit purpose of containing the negative effects of the prevention and containment measures related to the epidemiological emergency by COVID-19 on final inventories in sectors characterised by seasonality and obsolescence of products. Public funds for this tax credit amount to €45 mio. for the year 2021.

AEROSPACE SECTOR

The Relaunch Decree provides for the suspension of payments of quotas that companies had to return to the State (€140 mio.) in relation to financing for aerospace companies, both in the civil and national defence sectors, granted on the basis of a law of 1985 (Interventions for the development and increased competitiveness of industries operating in the aeronautical sector). The cost of this measure amounts to €15 mio.

ARTISTIC AND QUALITY CERAMICS

The Relaunch Decree provides for the refinancing of the law for the protection of artistic and traditional ceramics and quality Italian ceramics for €2 mio. for 2021 to be allocated to the development and implementation of projects aimed at supporting and enhancing artistic and traditional ceramics activities, with the aim of mitigating the economic effects of the spread of COVID-19 contagion in the sectors of artistic and traditional ceramics and quality ceramics, as well as promoting the protection and preservation of the technical and production characteristics of ceramic production.

TOURISM SECTOR

The Relaunch Decree provides for the abolition of the first instalment of the IMU (Tax on the real estate component of assets) for the year 2020 in favour of owners of properties used as seaside, lake and river bathing establishments or thermal spas, as well as for the properties of holiday farms, tourist villages, youth hostels and campsites. This measure has also been extended to companies that set up exhibition facilities as part of trade fairs or events. The cost of this measure is €211.45 mio..

The Relaunch Decree, in support of tourism, provides for the establishment of two funds at the Ministry of Tourism: the first one with an endowment of €50 mio. for 2020 (100 mio. in 2021), in order to support the tourism sector through market operations (i.e. to subscribe shares or shares in collective investment schemes and investment funds for the purchase, renovation and development of buildings for tourism and accommodation activities); the second one for the promotion of tourism in Italy, with an endowment of €20 mio. for 2020, in order to promote the recovery of tourism flows at national level.

A fund is also set up to support travel agencies and tour operators in view of the negative economic impact of the COVID-19 containment measures, the fund is allocated €25 mio. for 2020.

RESTAURANTS, BARS, ETC.

The Relaunch Decree exempts from 1 May to 31 October 2020 the payment of the tax or fee due for the occupation of public spaces and areas (Tosap and Cosap) including restaurants, trattorias, diners, pizzerias, breweries, bars, ice-cream parlours, pastry shops, etc. The charges for the State amount to €127.5 mio. for the year 2020.

ENTERTAINMENT, CINEMA, AUDIO-VISUAL

The budget of the Funds (from €130 to €245 mio.) for the support of emergencies in the entertainment, cinema and audio-visual sectors arising from the measures adopted to contain the COVID-19 is increased.

COMPANIES AND CULTURAL INSTITUTIONS

The Fund for the emergencies of businesses and cultural institutions is set up, with an endowment of €171.5 mio. for 2020, to support museums and other places of non-state culture, to support bookshops and the entire publishing industry, as well as to support other businesses and cultural institutions.

Other measures in the sector are foreseen to support cinemas, performing arts organisations, art-bonuses, etc.

These measures demonstrate how:

- the intervention of the Italian State, as usual, is pulverised into dozens and dozens of micro-interventions, without a general framework of public planning of the interventions;
- the sectorial intervention, in the Italian tradition of recent decades, translates only into economic transfers, incentives, tax advantages for companies;
- the absence of industrial sectors is worrying, with the sectoral intervention aimed almost exclusively at tourism, bar-restaurants, etc., as if Italy were not the second largest industrial country in Europe.

The possibility of exercising public powers within industrial sectors

The measures decided by the Italian Government provide for the possibility of exercising public powers, but in a very limited way.

These measures, in particular, are about powers that can be exercised in the fields of defence and national security, as well as certain defined areas of activity of strategic importance in the energy, transport and communications sectors. For example, in Italy the Golden Power (Special Power) law has been extended, which allows the Italian Government to block the entry of foreign companies within the companies operating in the strategic sectors (energy, space, TLC, defence, etc.). Special powers (golden power) include, among others, the power to dictate specific conditions for the acquisition of equity investments, to veto the adoption of certain corporate resolutions, and to oppose the purchase of equity investments. In Italy, the aim of the measure is to make the national regulation of the special powers of the Government compatible with European law, which is linked to the "golden share" and "action spécifique" institutions – provided for in the English and French legal systems respectively – and which in the past had already been the subject of censures raised by the European Commission and a ruling condemning them by the EU Court of Justice.

In order to safeguard the structures of companies operating in areas considered strategic and of national interest, in 2012 the matter of special powers that can be exercised by the government in the defence and national security sectors, as well as in some areas considered of strategic importance in the energy, transport and communications sectors, was regulated. Subsequently, in 2019, the exercise of special powers relating to electronic broadband telecommunications networks with 5G technology was also regulated, and the operational scope of the rules on special powers that can be exercised by the Government in strategic sectors was extended, coordinating it with the implementation of EU regulations on the control of foreign direct investment in the European Union.

Compared to the previous legislation of 1994, the 2012 law marks the transition from a golden share regime to a golden power system that allows the exercise of special powers in relation to companies carrying out activities of strategic importance. The "threat of serious prejudice" to public interests is assessed by the Government, which can exercise the following powers: opposition to the purchase of shareholdings; veto the adoption of corporate resolutions; imposition of specific requirements and conditions.

Companies carrying out activities of strategic importance in the above-mentioned sectors are required to notify the Government of complete information on certain resolutions or corporate acts, in order to allow the timely exercise of special powers by the Government; in essence, anyone acquiring a shareholding in companies carrying out activities of strategic importance in the defence and national security sectors is required to notify the Presidency of the Council of Ministers.

With this new law the Government modifies the discipline of special powers.

First of all, it extends the scope of the notification obligations relating to the purchase by a person outside the European Union of shareholdings of such importance as to determine the control of companies holding assets and relationships of strategic importance for the national interest other than those in the defence, national security, energy, transport and communications sectors. In fact, all the critical factors mentioned in the European regulation are included: (a) critical infrastructure, whether physical or virtual, including energy, transport, water, health, communications, media, data processing or storage, aerospace, defence, electoral or financial infrastructure, and sensitive facilities, as well as investments in land and buildings essential for the use of such infrastructure; (b) critical technologies and dual-use items (civil and military) including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defence, energy storage, quantum and nuclear technologies, as well as nanotechnology and biotechnology; (c) security of supply of critical inputs, including energy and raw materials, and food security; (d) access to or ability to control sensitive information, including personal data; (e) freedom and pluralism of the media. The scope has been further extended to the healthcare sector, with regard to the production, import and wholesale distribution of medical, surgical and personal protective equipment.

PUBLIC INTERVENTION

The only public intervention instrument provided for by the Relaunch Decree is the Fund for the safeguarding of employment levels and the continuation of business activities, with an endowment of €100 mio.. This fund is aimed at rescuing and restructuring companies that own historical brands of national interest and joint-stock companies, with at least 250 employees, that are in economic and financial difficulty.

The Fund operates through interventions in the risk capital of these companies, carried out at market conditions, in compliance with the EU State aid rules, as well as through measures to support the maintenance of employment levels, in coordination with existing instruments on active and passive labour policies.

Companies wishing to make use of the Fund shall notify the Ministry of Economic Development of information relating to

a) the actions they intend to implement to reduce the employment impact, for example, through exit incentives, early retirement, redeployment of employees within the company or the group to which the company belongs;
b) companies that have already expressed an interest in the acquisition of the company or the continuation of the business activity or the actions they intend to take to find a possible buyer, also by attracting foreign investors;
c) the opportunities for employees to submit a purchase proposal and any other possibility of recovering the assets from them.

A subsequent decree of the Minister of Economic Development shall define the criteria and methods of management and operation of the Fund, as well as the procedures for access to the relevant interventions, giving priority to those applications that have the greatest impact on employment profiles and the development of the production system.

As mentioned above, this is the only measure that allows real public intervention, i.e. state participation in the capital of companies.

However, this measure is also highly critical, as companies that were in difficulty before the COVID-19 crisis are excluded from the scope of intervention of this Fund.

Indeed, according to Article 108 of the Treaty, Member States must notify risk financing measures which constitute State aid within the meaning of Article 107 (in particular if they do not meet the market economy operator test), which do not fall within the scope of the de minimis Regulation and which do not meet all the conditions for risk financing set out in the General Block Exemption Regulation. The Commission will assess the compatibility of these measures with the internal market under Article 107 of the Treaty. There is therefore a risk that this measure will also be severely limited in terms of the scope for public intervention.

Moreover, it should be stressed that the only real public intervention measure has a budget of only €100 mio., and only later was this figure increased, also in the light of the high number of industrial crises emerging

Planned measures on the labour side

SUSPENSION OF DISMISSALS

The most important measure decided by the Italian Government concerns the freezing of dismissals for economic reasons, i.e. dependent on crisis situations or company difficulties.

The first measure of the ban of redundancies was taken in March and provided that for sixty days from the date of exit of the decree-law no collective redundancy procedures can be opened: collective redundancies are those due to company crisis situations that justify the closure or reduction of productive activity with the consequence of causing redundancies among workers.

Obviously, crisis situations are often created by companies to reduce employment levels or are always used instrumentally to achieve this objective.

Obviously, in a crisis situation such as the one caused by the COVID-19 pandemic, it is possible to determine situations of productive difficulty that could have induced companies to try the path of redundancies.

Moreover, the employer, regardless of the number of employees, cannot proceed with individual dismissals for justified reasons: the "justified reason" (giustificato motivo oggettivo), in Italian law, allows individual dismissals in case of "significant breach of the contractual obligations by the worker or for reasons inherent to the productive activity, work organisation and its regular functioning"; this is a very wide case that, in a crisis phase like the present one, could have allowed companies to decide freely whether or not these cases were used to proceed with individual dismissals. For example, the reasons inherent in productive activity or work organisation give companies a great power to decide whether or not to start a dismissal; and this power has been further strengthened with the amendment, decided by the Renzi Government, of the Workers' Statute (i.e. the main law regulating workers' rights).

Fortunately, these redundancy possibilities have been suspended.

It should be stressed that this result was achieved only thanks to the mobilisation of workers and the demands of the trade unions, which tried to protect employment levels by preventing the COVID-19 crisis from being used by companies to decide on mass redundancies.

The blockade of redundancies was subsequently extended until August and then again extended, albeit only partially, until November-December. In fact, employers who have not fully benefited from the wage supplementation treatments due to the epidemiological emergency are precluded from initiating collective redundancies, including pending procedures initiated after 23 February 2020; moreover, individual dismissals for objective reasons are precluded, regardless of company size.

As said, the latest Government intervention has only partially limited the blockade of the dismissals, as the suspension of this blockade does not apply in the following cases:

- in the case of dismissals motivated by the definitive cessation of the company's activity, achieved upon the company's liquidation, even partial liquidation, in the event that during the liquidation there is no transfer of a set of assets or activities that could constitute a transfer of the company or of a branch of it;
- in the event of a collective company agreement, entered into by the trade unions, as an incentive to terminate the employment relationship, limited to the workers who adhere to the above agreement, who will be provided with the NASPI unemployment benefit;
- in the hypothesis of dismissals in case of bankruptcy, when it is not decided the provisional exercise of the enterprise, or when it is ordered to cease. In the case of which the provisional financial year is arranged for a specific branch of the company, redundancies in sectors not covered by the ban are excluded from the ban.

These measures to lock redundancies, decided by the Government on the basis of the pressure exerted by the workers' movement and trade unions, were much contested by the employers' association (Confindustria), which complained that locking redundancies would not allow them to carry out the necessary company reorganisation and

restructuring processes. Obviously by the terms "reorganization" and "restructuring", employers mean the possibility of freely deciding on employment levels.

Recently, the Cgil trade union asked for an extension of the period of the redundancy blockade, which will expire at the end of 2020, warning the Government that there could be a general strike of all workers of all categories on this issue.

SOCIAL SHOCK ABSORBERS

A complementary measure to the blockade of redundancies was the one decided by the Government on the strengthening of the social shock absorbers.

The first organic intervention, decided by the "Relaunch Decree", provided for special rules on social shock absorbers (Cassa Integrazione) granted following the suspension or reduction of work as a result of the COVID-19 emergency, in particular by increasing the maximum duration of these treatments from nine to eighteen weeks, fourteen of which are available for periods from 23 February to 31 August 2020 and four from 1 September to 31 October 2020.

Attention: we are not talking about the ordinary instruments of social shock absorbers, but about further extraordinary measures expressly aimed at dealing with the social consequences of the COVID-19 crisis.

Subsequently, these rules were revised with the "August Decree", providing for the periods between 13 July 2020 and 31 December 2020, the possibility of using a maximum of eighteen weeks of social shock absorbers (ordinary and in derogation), divided into two 9-week tranches.

It is quite clear that the decree "zeroes the counter" of the days available on July 12, 2020, in order to restart it the following day with the new deadlines.

The recognition of the second nine weeks is subject to the authorisation of the first nine weeks and determines the employer's obligation to pay a contribution. This contribution is calculated on the total remuneration that would have been due to the employee for the hours not worked following the suspension, to the extent of the amount of the contribution:

- 9%, if the reduction in turnover is less than 20%;
- 18%, if there has been no reduction in turnover;
- no contribution, if the reduction in turnover is greater than 20%, if there has been, in the first half of 2020, a reduction in company turnover of less than 20%.

While for employers who ask for an economic contribution after the first 9 weeks of social security benefits, an economic advantage is granted to those who do not require such use. In fact, private employers who have used the social shock absorbers during the period of May/June 2020 and do not intend to apply for the additional periods provided for by this legislation, are granted exemption from the social security contribution due by them for the duration of double the days of social shock absorbers enjoyed in May and June 2020, up to a maximum of 4 months, to be used by 31 December 2020.

Therefore, employers are offered an alternative between requesting new social security benefits, under the conditions and with the duration described, and benefiting from a "discount" on social security contributions: this "discount" is particularly attractive, especially when compared with the payment of the additional contribution for the days following the first 9 weeks (this measure requires public funding of €363 mio. for 2020 and €121 mio. for 2021).

But beyond these clarifications, one thing must be observed: while the employers' association has taken a strongly contrary stance on the layoffs ban, on the social shock absorbers it has not said it is against them, because most of the economic funds are public.

In order to finance these measures on social shock absorbers, in fact, the "August Decree" states that the economic burden borne by the State amounts to €7,8bn. for the year 2020 and €2,1 bn. for the year 2021 in terms of net balance to be financed and €4,8 bn. for the year 2020 and €1,2 bn. for the year 2021 in terms of net debt and general government needs: this amounts to a total of €15.44 bn.

With the previous Decree (Relaunch Decree), the expenditure limit for the provision of these services was increased by €11,5 bn. for 2020.

The economic figures cannot be fully added up, as only part of the funds of the Relaunch Decree were spent to cover the social shock absorbers used in the months prior to August.

A precise calculation of the number of public resources used to pay for the social shock absorbers will only be possible after the end of 2020; we can certainly say that the public funds made available are very significant.

ECONOMIC ALLOWANCES

Additional social shock absorbers and/or economic allowances have been introduced for particular categories of workers not covered by the ordinary instruments, such as, for example: workers in agriculture, aviation, sport, tourism, etc.

Among the economic indemnities – aimed at supporting the reduction and/or suspension of work – we point out the following established by the "August Decree". An indemnity of €1,000 is envisaged for seasonal workers in the tourism sector in other sectors who have involuntarily ceased working in the period between 1 January 2019 and 17 March 2020; for intermittent workers; for self-employed workers with occasional contracts, without a VAT number, who do not have a contract in existence on 15 August 2020; for workers registered with the Entertainment Workers Pension Fund with income in excess of €50,000 or €35,000.

There is an indemnity of €600 for each of the months of June and July 2020 in favour of seafarers.

Obviously, public funds are also provided here (e.g. €680 mio. for tourism and entertainment workers, 100 mio. for sports workers, 26.4 mio. for seafarers, 22.9 mio. for aviation workers, etc.).

In order to support the unemployed workers covered by unemployment benefits, it has been decided to extend by two months the receipt of unemployment benefits (NASPI, for employees and DIS-COLL for co-workers, etc.) ending in the period between 1 May 2020 and 30 June 2020, as well as those ending in the period between 1 March 2020 and 30 April 2020. The economic burden of this measure amounts to €1,318 bn.

The creation of new jobs planned through public programmes

EXEMPTION FROM SOCIAL SECURITY CONTRIBUTIONS FOR PERMANENT EMPLOYMENT

As usual, the Italian Government has not defined specific employment plans, but has used the instrument of incentives in favour of private companies through the exemption from social security contributions for permanent employment. This decision was taken with the "August Decree" and provides that employers hiring on an open-ended basis, from the date of entry into force of the Decree until 31 December 2020, are entitled to total exemption from social security contributions for each new employee, for a maximum duration of six months and up to the sum of €8,060 on an annual basis.

The exemption is also granted in the case of transformation into permanent employment of workers hired on fixed-term contracts after the date of entry into force of this Decree and may be cumulated with other exemptions or reductions in funding rates provided for by current legislation. This benefit in favour of private companies entails lower contribution revenues of EUR 371.8 mio. for the year 2020 and EUR 1,024.7 mio. for the year 2021 which will be borne by the State.

A similar measure has also been taken for the tourism sector, but in this case to encourage temporary employment.

NEW SKILLS FUND

Or, as usual, the Italian Government imagines that the creation of new jobs goes through the issue of skills; for this reason, with the Relaunch Decree, a special Fund, called New Skills Fund, is set up at the Anpal (Agenzia per le

politiche attive del lavoro – Agency for Active Labour Policies) in order to cover the costs related to training courses that may be provided for by the company or territorial collective labour agreements following the stipulation of agreements aimed at a reshaping of working time. It is thus possible to make specific agreements – between companies and trade unions – to reduce working hours due to changes in the company's organisational and production needs, with which part of working hours are used to provide training courses whose costs (including the related social security and welfare contributions) are borne by the aforementioned Fund, up to a maximum of €230 mio.. Subsequently, with the August Decree, the management and use of the new skills fund is extended to the whole of 2021, to which a share of €300 mio. is allocated, in addition to the greater resources foreseen for 2020, which can count on a total funding of €430 million.

RECRUITMENT OF PERSONNEL IN THE PUBLIC SECTOR

Some very limited public funds have been provided to increase the number of health service staff; these new hires are often provided through fixed-term contracts.

The "Cura Italia" decree, in fact, has provided for an increase of €100 mio. in current healthcare funding for 2020, which can be used by the bodies and companies of the National Health Service for self-employment assignments (including coordinated and continuous collaboration) for retired medical and nursing staff. The increase is divided for each region. The same Decree also allows the Ministry of Health to hire 40 medical and veterinary health managers and 29 non-managerial staff with the professional profile of prevention technician with a fixed-term contract of no more than three years. For these recruitments, an expenditure of €5 mio. is authorised for 2020; €6.7 mio. for each of the years 2021; and 2022 and €1.69 mio. for 2023.

It is clear that: a) resources are very limited, b) these recruitments are only made under fixed-term employment contracts. These are two very negative aspects because, for a long time, there have been far fewer healthcare staff compared to the real needs.

The same limitations (scarcity of resources and use of fixed-term contracts), concern new hires to strengthen the National Institute for Occupational Accident Insurance (INAIL), which is authorised to assign 200 doctors and 100 nurses for a period not exceeding 6 months, which may be extended no later than 31 December 2020 at a cost of €15 mio..

The same decree has provided, for 2020, an increase of €1,410 mio. in the financing of national health needs in favour of the Regions (which have almost exclusive competence in health matters). These funds were aimed at: a) remuneration of overtime services for health personnel, €250 mio. (they are not new jobs, but only the remuneration of overtime hours worked by the staff already on staff); b) recruitment of doctors in specialist training and medical and health personnel, €660 mio.; c) strengthening of assistance networks, through the signing of contracts with private facilities for the purchase of services, €240 mio. are therefore funds that are used to pay for hospitals and private clinics.

Only later were further measures taken, with the Relaunch Decree, to strengthen the health personnel of the territorial care services by providing for the use of the following funds for new hiring of personnel in the health and social services:

- implementation of the home care service: €265 mio.;
- recruitment of nurses: €332 mio.;
- strengthening of the Special Units of Continuity of Care (USCA) service: €61 mio.;
- recruitment of social workers: €14 mio.;
- staff in Regional Operations Centres: €23 mio.

A further measure relating to the recruitment of health personnel is linked to the project to strengthen the hospital network, in particular the intensive care facilities. For the hiring of the necessary health personnel the Regions are authorised to increase the expenditure of personnel, for the year 2020 up to a maximum of about €240 mio., and about €347 mio. from 2021.

The "Relaunch Decree" also provides for the possibility for public administrations to stabilise staff on fixed-term employment contracts on the basis of certain criteria: having been recruited on a fixed-term basis with a public competition; having completed, as of 31 December 2020, at least three years of service in the last eight years.

This measure: a) leaves this decision to individual administrations (municipal, regional, etc.) which is a possibility, but not an obligation: b) does not create new jobs but stabilises precarious ones (it is certainly important to stabilise staff, but we are not talking about new jobs).

In the education sector, the Relaunch Decree provides that the number of posts provided for in the ordinary competition and the extraordinary procedure for the recruitment of teachers in first and second level secondary schools, recently announced, has increased by a total of 16,000 posts, equally divided between the two procedures: the number of posts allocated to the extraordinary procedure is high (from 24,000 to 32,000), while the number of posts in the ordinary competition has increased by 8,000.

Please note: this is not additional public funding. This increase in the number of posts in the education sector does not lead to additional expenses because the entries in the competition winning roles take place within the limits of the vacant and available posts and will take place in four years, i.e. as many as will be needed to ensure compliance with the recruitment quota provided for in the previous regulations.

Also in the education sector, the Relaunch Decree provides for the stipulation, during the 2020/2021 school year, of additional fixed-term contracts, until 31 December 2020, to complete the working hours, with workers already hired on part-time contracts from a previous competition procedure (provided for by a law of 2013) to employ the staff already employed by cleaning and auxiliary services companies in schools. Again, it is positive that the working hours, and therefore the salary, of this part-time cleaning staff (about 11,000 workers) are increased, but this is not about creating new jobs; furthermore, no new public funds are provided, but funds already provided are used.

Kindergartens and first cycle schools are authorised to sign, from September to December 2020, fixed-term contracts until 31 December 2020, with technical assistants, in order to ensure the functionality of the IT equipment; these contracts may be signed up to a total limit of 1,000 units, using €9.3 mio..

While public funds for the public education system are granted within the limits strictly necessary to ensure the minimum functioning of these services, €165 mio. and €120 mio. for the year 2020 are foreseen for private nursery and education schools respectively to cover the reduction of tuition payments: with public funds, therefore, the tuition fees of students attending public schools are paid.

Universities are authorised to hire university researchers on fixed-term contracts within the expenditure limit of €200 mio. per year, starting from 2021; moreover

The Fund for the ordinary financing of Universities is increased by €100 mio. for 2021 and €200 mio. per year from 2022 in order to promote the research activities carried out by universities and enhance the contribution of the university system to the competitiveness of the country.

SURE

The Ministry of Economy and Finance is authorised to enter into an agreement with the European Commission concerning the methods of payment of the counter-guarantee that Member States may provide as a contribution of the European Temporary Support Facility to mitigate the risks of unemployment in the state of emergency (SURE) following the COVID-19 pandemic and to issue the relevant State guarantee.

Joining the SURE would entail for Italy a commitment to counter-guarantee risks totalling 12.75% of €25 billion, or € 3.184 billion.

NETWORK AGREEMENT

The Re-launch Decree provides for the possibility for companies, for the year 2020, entering into Network Agreements to encourage the maintenance of employment levels of companies in production chains affected by economic crises as a result of crisis situations or states of emergency declared by the competent authorities. The Network Agreement between companies is a legal instrument introduced into the Italian legal system in 2009, which allows business combinations to establish an organised and lasting collaboration between them, maintaining their autonomy and individuality (without setting up an organisation

such as the company or consortium), as well as benefiting from significant incentives and tax breaks.

The Network Agreement shall regulate:

- the employment of workers from companies participating in the network at risk of job loss;
- the inclusion of people who have lost their jobs due to business closure or crisis;
- the hiring of professional figures necessary for the relaunch of productive activities in the crisis exit phase.

For these purposes, companies use the legal instruments of job-posting and codetermination (in Italian: "codatorialità", i.e. the use of the work performance of one or more employees in favour of one or more employers, according to a particular standard where the latter are part of a business network) to carry out work activities in the companies participating in the network.

As far as the private sector is concerned, (temporary) posting provides that a worker may be made available to a person other than the employer, in the interest of the posting employer, who remains solely responsible for the financial and regulatory treatment due to the worker (who will continue to be counted in the workforce of the work unit where he or she worked). In addition, for network companies, the codetermination of employees hired with rules established through the network contract itself is allowed, i.e. the use of the work performed by one or more employees in favour of one or more employers who are part of the network.

Provisional Conclusions

The demand-side measures have been defined without any concern for the conditions of the industrial sectors involved: i.e. incentives have been provided for the purchase of individual products with respect to which the industrial production sectors are experiencing serious difficulties. Therefore, these forms of demand support will hardly stimulate the creation of new jobs and will have no effect on the condition of the industrial sectors involved. For example, for cleaning vehicles, there is a strong risk that Italy will retrace the path already followed with regard to photovoltaic panels, when strong incentives were provided for their purchase, but these products were largely imported from abroad (Germany and China) because Italy did not have an industrial structure able to produce them.

The supply-side measures, to a very large extent, do not provide for any social (employment levels, working conditions, etc.) or industrial commitment (new investments, prohibition of relocation or outsourcing, forms of work and production organisation) on the part of the companies that will benefit from these measures.

Following very strictly the European rules, companies that would need these measures most, such as companies in difficulty that need restructuring and relaunching, are excluded from these measures.

In many cases mechanisms have been defined (technical, but in reality political) aimed at excluding the possibility of public participation in the ownership of companies despite the substantial economic resources that the Government will make available. There are also no forms of control by workers on the correct use of these resources.

As anticipated, these are typical horizontal, neo-liberal measures.

Even in the case of credit and liquidity measures, the constraints on companies in difficulty strongly limit the possibility of intervening in cases of major criticality and the instruments of public (and workers) control over the use of these instruments are practically non-existent.

Sectoral measures almost completely ignore the Italian industrial fabric, lack public plans and programmes and do not set social and industrial objectives.

Golden Power is a very limited tool, as it allows the Government to intervene only to stop corporate restructuring operations but does not envisage any real power of public intervention.

The only measure that allows a real public intervention has a budget limited to only €100 mio.; and it too must comply with the strict limits of the European Temporary Frame-

work. Only later was this figure increased, also in the light of the high number of industrial crises emerging

The suspension of redundancies is undoubtedly a positive measure but limited in time and subject to the continuous blackmail and pressure from Confindustria, which would like companies to be able to lay off freely. On the other hand, it would be useful to link the use by companies to any benefit provided by the Decrees to the prohibition to proceed with redundancies.

The creation of new jobs in the business sector takes place only through substantial tax advantages in favour of entrepreneurs; once again the Government uses instruments (such as the creation of new skills and training) that have proved to be unsuccessful; the hiring foreseen in the public sectors (health, social services, education) is below the needs of these sectors, which have long been understaffed to meet social needs.

Greece: Attacks on Workers and Environment

*By **Eleftheria Angeli**, economist (MSc, University of Strathclyde, Glasgow) and researcher at the Nicos Poulantzas Institute in Athens. Her current research focuses on sustainable growth in Greece. She has formerly worked for the SYRIZA Delegation in the REGI Committee of the EP (2016-2019). In 2019, she was a candidate for SYRIZA-Progressive Alliance for the European Parliament.*

INTRODUCTION

The coronavirus crisis has created, without a doubt, an unprecedented situation for modern societies and economies. If one thing is a fact in the days ahead, it is that the forecasts for either the fiscal or the health part of the coronavirus outbreak and its aftermath, cannot be based on certainties. The financial crisis of 2008 still lays its shadow over many countries and, although valuable lessons can be learned, the current situation poses several different challenges.[59] Although the health crisis has been symmetrical, meaning that the virus spread almost at the same period worldwide, the aftermath has tended to be asymmetrical. This assumption lies in the different potentials and capabilities the countries have in order to deal with the consequences of the crisis and, of course, the political will of their governments. The World Bank has stated recently that it is expected by the end of 2021 there will be a new wave of poverty, with at least 150 mio. people from countries with medium or low incomes not being able to cover basic needs[60]. On the other hand, in countries with higher incomes, the future challenges include the development of remote working, as well as automation of many work placements. In Europe, it is estimated that almost 59 mio. job placements, mostly referring to unskilled ones, will be lost. Having mentioned these, it is clear that worldwide we are facing the challenge of aggravation of inequalities and disparities in the labour market, with job insecurity and uncertainty adding up to the flexicurity of the past years rising and with workers often not being institutionally protected.

In Greece, epidemiological developments are worrying, the recession is expected to be deeper and the recovery more uncertain. The predictions for the second trimester of 2020 failed to correspond to the actual impact of the health crisis. The reviews and revisions of the calculation of the depth of the crisis, although still we cannot be certain and absolute about it, rejected the scenarios of 8.5-10% recession.[61] Moreover, the Greek economy is exposed to external shocks due to a considerable dependency on services, rather than products exported and specifically tourism and transportation receipts. Its sustainability and growth will be a major challenge in the years to follow, considering the country has just emerged from a decade of financial crisis. The fiscal policy followed in order to tackle the coronavirus crisis should have a stabilizing role of both containing the recession and, secondly, protecting the household and businesses.

There are two starting points. It's a high-debt economy with a low potential growth rate. On the other hand, in the short term the new environment gives new possibilities in the exercise of economic policy. The Rescue Fund from the EU in combination with existing funding programmes creates a financial reserve that can enable the government to support expansionary fiscal policy without additional borrowing.[62] In these terms, member states have to submit their Stability Programmes in order to tackle the economic challenges from the coronavirus crisis and benefit from the funds of the European Commission[63]. A special Committee,

59 Stella Ladi et al.: *Coronavirus recovery – lessons from the eurozone crisis*, The Conversation, July 9, 2020 https://theconversation.com/coronavirus-recovery-lessons-from-the-eurozone-crisis-142191

60 World Bank, Press Release : *COVID-19 to Add as Many as 150 Million Extreme Poor by 2021*, Oct 7, 2020 https://www.worldbank.org/en/news/press-release/2020/10/07/COVID-19-to-add-as-many-as-150-million-extreme-poor-by-2021

61 Karamouzis Nikolaos: *Coronavirus and the Greek economy: The 5 critical challenges*, To Vima, 12 Nov 2020, https://www.tovima.gr/2020/11/12/finance/koronoios-kai-elliniki-oikonomia-oi-5-krisimes-prokliseis/

62 https://www.consilium.europa.eu/en/policies/eu-recovery-plan/

63 https://ec.europa.eu/info/sites/info/files/2020-european-semester-stability-programme-greece_en.pdf

under the Presidency of Christophoros Pissaridis, winner of the so called Nobel Prize in Economic Sciences, announced by the Government has presented a growth plan for Greece in view of the impacts of the coronavirus crisis and in line with the priorities of the European Commission.[64][65]

The study aspires to map the fiscal measures that the Greek government has adopted as of December 2020, in order to face the coronavirus crisis consequences. At this point, the latest measures announced in November 2020 following the second general lockdown will be taken into consideration[66]. At this point, we need to emphasize that the measures announced by the government and the corresponding amounts do not necessarily correspond to those implemented. Already the measures announced during the first general lockdown in March 2020, according to several testimonies of companies and employees, the alleviations that were announced were not finally applied.

SUPPORT OF DEMAND AND HOUSEHOLDS[67]

The belief that economies are self-regulating and self-healing after a strong external shock was deconstructed worldwide. Therefore, bold monetary and fiscal initiatives are needed to protect employees and companies, especially small and medium ones, while managing to hold back the crisis. According to the last report of the Hellenic Statistical Authority (2018), over 700,000 small and medium companies are active in Greece[68] in the fields of industry, construction, trade and services. In terms of employment, 48.5% of the employees in the business sector of the country in 2017 were employed in companies with up to 9 employees, while 28.7% of the employees were self-employed. According to the government, the total value of measures announced for households and enterprises amounts to €6.8 bn., emphasizing that, in combination with the resources that will be channelled through the banking system, the total strengthening of the economy in the near future will amount to €10 bn.[69]

In order to boost the demand and provide incentives for consumption of goods and services the following measures were announced:[70]

1) Suspension of the payment of the solidarity levy for the year 2021.
   The implementation of this measure benefits about 1.2 mio. employees in the private sector, the self-employed, farmers and incomes subject to the solidarity state levy. Pension incomes and paid employment income paid to public sector employees are exempt from this suspension. However, the civil servants and retirees who have additional income from any other sources, such as e.g. rents, benefit from that measure since the exemption concerns income and not taxpayers. The move is aimed at boosting the private sector, which has been hit hard by the pandemic, boosting investment and creating new job placements. However, around €350 mio. provided for the solidarity levy will be slashed in 2021 by the government with the excuse that salary reductions call for new measures to support workers.[71]

2) Exemption from the Single Property Tax of the inhabitants of small, remote islands (concerns 28 remote Greek islands).
   Exempted from the payment of Single Property Tax, for the year 2020 onwards, are the tax residents of Greece who have their main residence on islands with a popu-

64 https://www.consilium.europa.eu/en/policies/eu-recovery-plan/

65 https://www.consilium.europa.eu/en/policies/the-eu-budget/negotiating-the-long-term-eu-budget/

66 https://www.imf.org/en/Topics/imf-and-COVID19/Policy-Responses-to-COVID-19#G

67 https://www.oecd.org/coronavirus/country-policy-tracker/#Economicimpact%E2%80%93OECDindicators

68 *ELSTAT: 709,696 active businesses in Greece in 2018*, 25 Sept 2020, https://www.eea.gr/arthra-eea/elstat-stis-709-696-i-energes-epichirisis-stin-ellada-to-2018/

69 To Vima Team: *6.8 billion package for workers – businesses – All the new support measures*, To Vima, 30 March 2020, https://www.tovima.gr/2020/03/30/politics/paketo-68-dis-gia-ergazomenous-epixeiriseis-ola-ta-nea-metra-stiriksis/

70 Taxheaven Greece: *Details of the new measures to support businesses and workers from the Ministry of Economy*, 5 Nov 2020, https://www.taxheaven.gr/news/51333/analytika-ta-nea-metra-sthrixhs-epixeirhsewn-kai-ergazomenwn-apo-to-yp-oik

71 Prokopis Hatzinikolaou: *Solidarity levy cut next year*, Ekathimerini, 12 July 2020, https://www.ekathimerini.com/254657/article/ekathimerini/business/solidarity-levy-cut-next-year

lation of less than 1,200 inhabitants. The purpose of the measure is to motivate the residents to stay or settle on these islands, but also to financially support these areas that have limited access.

3) Extension of payment and suspension of collection of tax and insurance obligations.
An extension is granted until 30 April 2021, to natural and legal entities (companies and the self-employed in some cases), whose operation is suspended by order of a public authority, which now includes retail and other activities, for the payment of their certified debts. The same applies to the instalments of arrangements and partial facilities, which are also already in suspension. The above obligations will then be repaid, within the framework of a settlement programme with very favourable terms, which will provide for the payment in 12 interest-free instalments or in 24 instalments with an extremely low interest rate of 2.5%. The cost of this measure is estimated at €230 mio.. For these companies there is also the opportunity to suspend the payment of instalments of regulated tax and insurance debts, payable in November with their repayment being postponed in corresponding instalments, at the end of the current regulation. The cost is estimated at €66 mill.. In addition, from November, for property owners who rent, 1/2 of their loss will not be offset against their tax liabilities, as provided to date, but will be paid directly to the beneficiaries, and will be credited directly to their bank account. The cost is estimated at €30 mill..
However, according to the Budget submitted for 2021 the tax revenues appear increased by 8.1% suggesting both high speed of tax collection, 1.7 times higher than GDP growth and, secondly, increase of taxes that will be collected in one year with two general lockdowns, i.e. with a large reduction of profits and with companies and households facing, apart from the coronavirus crisis, the threat of the new unacceptable bankruptcy law. Effi Achtsioglou, the MP responsible for Financial Affairs on behalf of SYRIZA, characteristically stated that *"the fiscal capabilities in order to give irrevocable support to the companies exist, for full replenishment of salaries by the state, while maintaining jobs and employment relationships"*.[72] Unfortunately, with the motto that "we need to save now in order to have later," the government is ready to suppress with all costs the real economy in 2021.

4) Suspension of auctions of the first home of vulnerable borrowers.
Following the auctions of the government, in cooperation with the member banks of the Hellenic Banking Association, the auctions concerning the first house are suspended, until the end of the year, for those borrowers who belong to the category of vulnerable.

5) Suspension of employment contracts and special purpose compensation based on the calculation of the amount of €800 for the month of November 2020. Additionally, unemployment benefit is extended by 2 months to those unemployed whose unemployment benefit expired in September, October, November and December. A new one-time financial aid, amounting to €400, is granted to the non-subsidized, long-term unemployed. It is shocking, however, that this particular measure leads to the exemption of 440,000 long-term unemployed people since the conditionalities in order to receive the state compensation are narrowed. SYRIZA has repeatedly demanded in the Parliament that there should be no civilians left behind in this insecurity the COVID-19 crisis has created. Specifically *"with this decision, the government seems indifferent to the loss of €1.3 bn. from labour income during the first quarantine, the reduction by €4 bn. of available income of all households in recent months, the average reduction of salaries by 10%, the salary of only €200 for 12% of the employees"*.[73]

72 N. Zorba: *SYRIZA – Non-refundable aid to businesses and coverage of wage costs by the State*, 3 Nov 2020, https://www.capital.gr/politiki/3492375/suriza-mi-epistreptea-enisxusi-se-epixeiriseis-kai-kalupsi-misthologikou-kostous-apo-to-kratos

73 *Government / Exclude 440,000 long-term unemployed from the 400 euro subsidy*, Avgi, 10 Nov 2020, https://www.avgi.gr/oikonomia/371399_apokleioyn-440000-makrohronia-anergoys-apo-tin-epidotisi-ton-400-eyro

REGARDING COMPANIES, THE MEASURES AIMING TO SUPPORT THEM INCLUDE:[74, 75]

1) Refundable Advance Payment – 3rd-4th-5th cycle (state aid to the financially affected enterprises refundable – in total or in part – in the form of a repayable advance).[76]
   This measure concerns private companies of all legal forms, as well as sole proprietorships without employees, if they have a tax cash register. Due to the unprecedented circumstances, it is possible the participation of individual companies without employees and without a tax cash register are operating in sectors that are particularly affected, such as transport, culture, sports and tourism and non-profit companies subject to VAT. The total amount of available financial assistance amounts to €1.5 bn., while a 4th cycle, amounting to €600 mio., is underway. Thus, the total state support to businesses, especially small and medium-sized enterprises, through the Repayable Advance Payment, is expected to exceed €4.1 bn. As from November, in view of the second general lockdown, the Repayable Advance Payment 4 and 5 is increased to €1.7 bn. with an expansion of the list of companies that have the right to access the Refundable Advance Payment. Regarding the eligibility for this facility, the Ministry of Finance has drafted a list of companies that can apply, called the Business Activity Code.

2) Over-discounts for digital and green fixed capital investments.[77]
   The incentive will be valid for three years, from 2021 to 2023. In particular, a strong tax incentive is introduced, in the form of an over-deduction of a total 200% of these expenses. These expenses will be deducted from the net profit at a rate of 100%, i.e. off-balance sheet, upon submission of the income tax return.[78] This deduction is an incentive, in addition to the usual deduction of these expenses, which is already applied based on the existing provisions of the Income Tax Code. The incentive for the over-discount also includes the depreciation of fixed assets of companies, in green economy, energy and digitalization. For example, a company carries out, within the 2021 tax year, expenditures in the context of strengthening the green economy (e.g. carrying out studies for the more rational management of its waste), amounting to €2,000. Its net taxable profits amount to €80,000. Based on the existing tax framework, the company pays a tax equal to €19,200 (80,000 X 24%), while under the new framework it will be required to pay a tax of €18,720 (78,000 X 24%).

3) The suspension of payment of instalments of bank loans.
   Based on the expanded list of Business Activity Code (since April 2020), in consultation with the Hellenic Banking Association, until the end of the year.

4) Reduction of business rents by 40%.
   All companies that are affected according to the expanded list of the Business Activity Code, now throughout the territory, are entitled to a mandatory reduction of rent of 40% on their commercial real estate. The same applies to the main residence of the employees who are suspended from employment, but also to the student residence of their children, throughout the territory.
   Individual incentives regarding the boost of demand consider mostly services and fewer products, since the Greek economy is highly dependent on them and it provides for an extension for six months of the reduced VAT rate. The reduction of VAT rates from 24% to 13% for transport, coffee and non-alcoholic beverages, cinema tickets and the tourist package is extended for another 6 months. That is, it is extended until 30 April 2021. The measure covers passenger transport by train, metro, tram, city and intercity buses, taxis, airplanes, ferries

---

74 https://www.pwc.com/gr/en/newsletters/tax-index/tax-and-legal-measures-COVID19.html

75 *Chr. Staikouras: strengthening the economy with 10 billion euros Greece*, Naftemporiki.gr, 16 Sept 2020, https://www.naftemporiki.gr/finance/story/1636826/xr-staikouras-enisxusi-tis-oikonomias-me-10-dis-euro

76 Stephanos Mitsios: *COVID-19 GREECE – Repayable advance, Enterprises to declare interest by 10th of April*, Ey.com, 8 April 2020, https://www.ey.com/en_gr/tax/tax-alerts/COVID-19-greece--repayable-advance--enterprises-to-declare-inter

77 *Greece to spend big part of EU recovery funds on green, digital projects*, Euractiv, 26 Nov 2020, https://www.euractiv.com/section/digital/news/greece-to-spend-big-part-of-eu-recovery-funds-on-green-digital-projects/

78 When and how tax exemptions are granted under the investment laws, Kathimerini, 8 July 2020, https://www.kathimerini.gr/economy/local/1086462/pote-kai-pos-dinontai-foroapallages-symfona-me-toys-ependytikoys-nomoys/

and combined transport. Additionally, there is a relief from import duties and VAT exemption on importation granted for goods needed to combat the effects of the COVID-19 outbreak. However, unions have repeatedly complained about the inadequacy of several of the measures, highlighting the fact that the governmental decisions do not put as a priority the sustainability of the small and medium enterprises but rather the interests of big corporations.[79]

TALKING IN NUMBERS (UNFORTUNATELY THE LAST UPDATE IS IN AUGUST 2020)[80]

Immediate fiscal impulse 3.1% of 2019 GDP

€373 mio. budget envelope: €273 mio. to the health sector and €100 mio. to other line ministries, primarily for additional workers and medical supplies.

OMISSIONS OF THE SUBSIDY AND AIM SCHEME AND LIQUIDITY CHALLENGES

The health crisis has put businesses that have managed to survive the previous financial crisis in a difficult position and now the time has come for a new definition of "sustainable business" to play a key role. Many small and medium companies, which constitute the majority of the economy, face difficulties accessing funds, and especially equity. According to the growth plan of Pissarides' Committee[81], without financial and other tools to help overcome the problems, businesses are trapped in small-scale operations and inefficient business practices, forcing some of them to survive on the brink of an informal economy, rather than growing and joining either national or international value chains. The criteria, however, that have been applied to date for the inclusion of companies in financial instruments are so strict that the few eligible companies are the ones that have virtually no immediate need of funding, resulting in 6 out of ten companies being unable to access funding.[82] Banks will rush to finance those companies that have already been deemed to meet their own strict criteria, with the result that a large number of companies will be excluded and mathematically put on a permanent cessation.[83] The separation into companies that are affected by the coronavirus and companies that are not affected, according to the list of the Business Activity Code is partially problematic since the only way to identify a business problem is through turnover and annual revenue. Moreover, those companies that have not been affected by the coronavirus will definitely be affected indirectly by the end of the year.

Regarding the measures taken to protect the sustainability of companies, unfortunately up to date, only the repayable advance that reaches the funds of the companies has worked effectively, while the rest of the programmes exhaust their dynamics in the multiple criteria that are applied, thus excluding the companies that are in urgent need of liquidity.

Additionally, the role of banks has been questionable since they are required to provide voluntary arrangements and facilities for those who are forced to be out of work and for those companies that have been forced to close. This option leaves out a large category of healthy businesses that risk becoming problematic due to reduced orders (demand) and turnover.

79 *GSEBEE: The measures announced by the government are not sufficient*, Naftemporiki, 21 May 2020, https://www.naftemporiki.gr/finance/story/1601390/gsebee-den-eparkoun-ta-metra-pou-anakoinose-i-kubernisi

80 Julia Anderson et al.: *The fiscal response to the economic fallout from the coronavirus*, Bruegel, often updated 2020, https://www.bruegel.org/publications/datasets/COVID-national-dataset/

81 https://ec.europa.eu/info/sites/info/files/2020-european-semester-stability-programme-greece_en.pdf

82 *ECA: «COVID-19» funding but with conditions and crisis conditions*, Naftemporiki, 29 May 2020, https://m.naftemporiki.gr/story/1603805/esa-xrimatodotisi-COVID-19-alla-me-proupotheseis-kai-orous-krisis

83 Nikos Theodoropoulos: *How businesses are excluded from COVID-19 liquidity support schemes*, Economic.gr, 11 Nov 2020 https://www.economix.gr/2020/11/11/pos-apokleiontai-oi-epicheiriseis-apo-programmata-enischysis-refstotitas-COVID-19/

ARE THE ANSWERS TO THE QUESTION OF COMPANIES' NEED FOR LIQUIDITY ENOUGH?

As stated above, this is a question that will trouble the companies since the access to funding is already challenging for a high percentage of them. The government aims to address this issue with the introduction of the "COVID-19 Business Guarantee Fund", established as an independent unit within the Hellenic Development Bank (HDB), this new scheme aims to provide guarantees, amounting up to EUR 1 billion in total, on new working capital loans originated by financial intermediaries to support undertakings active in Greece.[84]

State guarantees will cover 80% of the losses incurred on the individual working capital loans to eligible companies and concern new fixed maturity loans that will be granted until 31 December 2020, with a duration of up to 5 years.[85] Each loan is covered throughout the 5-year period and until the full and complete repayment of each liability. A subsidisation of guarantee premiums, up to a total amount of EUR 250 million, will also be available.

ENVIRONMENT CRISIS STILL IN THE FOREGROUND

According to the priorities set by the European Commission in terms of the criteria to disburse the resources of the Recovery Fund, green transition is at the top of the agenda. In the context of the Growth and Development Plan that each Member State has the responsibility and obligation to submit, Greece has both the resources and the opportunity to move the economy in the direction of sustainability and environmental respect.

The European Commission describes green investments as very important for the energy future of Greece, commenting that they occupy a 25%-30% share of the country's monthly production mix, a percentage close to the European average, with some Member States showing much greater penetration and others less. According to the budget submitted in November for 2021 to the Hellenic Parliament, the General Directorate of Fiscal Policy & Budget / Directorate of Evaluation & the General Government Actions cooperates with the OECD for development and registration of the necessary methodology and the appropriate tools, so that, in the evaluation data of the Programs of the Ministries, the assessment of the environmental footprint of the funded policies is included. The transition to a green economy is a key parameter of the Greek plan for the Sustainability and Development Fund.[86] The specific sector – target of the Greek plan, includes indicative projects and programmes, such as energy upgrading of buildings, interconnections, of transmission and distribution networks, dams and 8 flood defences, e-mobility, solid waste and wastewater management and treatment, spatial reform, strategic urban regeneration, critical environmental interventions and protection from natural disasters.

However, the Greek government during the first lockdown of March-April 2020 took the opportunity to pass the most concerning legislative acts regarding the environment with an opaque procedure, with 64 of the articles in the bill never coming to light during the public consultation process, even against the priorities of the European Commission.[87] The bill, entitled "Revitalization of Environmental Legislation", constricts the substance of the protection of Natura 2000 sites and even promotes mining activities and hydrocarbon mining in nature protection areas and degrades or almost abolishes, under the pretext of acceleration, the environmental licensing process, for the benefit of some investments, but to the detriment of the environment.

---

84 Eugenia Tzortzi: *Hellenic Development Bank has granted loans of 5.3 billion*, Kathimerini, 6 Oct 2020 https://www.kathimerini.gr/economy/561105577/daneia-5-3-dis-echei-chorigisei-i-elliniki-anaptyxiaki-trapeza/

85 Over 2 billion guaranteed loans for small businesses, BusinessDaily.gr, 28 Sep 2020 https://www.businessdaily.gr/xristika/26958_eggyimena-daneia-pano-apo-2-dis-gia-tis-mikres-epiheiriseis

86 Nenas Malliara: *Incentives for green investments through the Stock Exchange – The role of the Recovery Plan*, Capital.gr, 21 Nov 2020 https://www.capital.gr/oikonomia/3497051/erxontai-kinitra-gia-prasines-ependuseis-meso-xrimatistiriou-o-rolos-tou-sxediou-anakampsis

87 *Famellos: government's choice to deregulate environmental policy*, Ypodomes.com, 28 March 2020 https://ypodomes.com/famellos-epilogi-tis-kyvernisis-i-aporrythmisi-tis-perivallontikis-politikis/

SECTORAL APPROACH OF THE GOVERNMENT

As mentioned above, a list of companies (Business Activity Code) indicates which sectors and companies are more affected by the coronavirus crisis, due to either mandatory suspension of operation or reduced turnover. The majority of them belong to the sectors of tourism, construction, culture, wholesale, retail, services and food and beverages. The measures include extension of special purpose compensation, amounting to €534, to the employees whose employment contracts have been suspended after their re-employment, during the summer tourist period and the leave remuneration and the leave allowance, according to the specially defined. For the same period, the payment of the amount granted as compensation for leave remuneration, for each employee whose employment contract has been suspended, on a case-by-case basis, is determined from the state budget to the employers.

PUBLIC SECTOR AND NATIONAL FIRMS

Even before the coronavirus crisis shook up the Greek economy, the government considered the acquisitions of Greek companies by foreign ones as a means of growing companies and with immediate results for sustainable development. It is already visible that the plan in the near future will be to merge or acquire a great number of Greek companies, invoking their survival, with the reality being a cruel business Darwinism.[88] The field of most interest to attract investors and capital seems to be innovation[89] and technology.[90] The Greek government, using funding from the recently agreed European Union Recovery Fund, aims to provide fiscal, institutional and financial tools that are expected to facilitate business mergers, with the acquisitions and mergers already underway in the first two months of the year corresponding to a transaction value of over €3.3 billion with an additional €1.6 billion expected from privatizations.

THE PUBLIC SECTOR AS A PERMANENT HEAVY PATIENT

The coronavirus pandemic, with all that it has brought, has enabled every objective person to draw a number of conclusions about many areas of our daily lives, such as, for example, how important and irreplaceable is the role of the public health apparatus, how it is important that basic infrastructure is directly related to our quality of life and that every citizen has access to basic social goods under public control. To contain the recession, public consumption and public investment are necessary because they are recorded directly in GDP. For Greece, there has been a GDP decline for the second quarter of 2020 amounting to 15.2% and specifically a decrease by 3.2% in public consumption and 10.3% in investment. The government has emphasized in its announcements that the Recovery Funds from the European Union as well as lending, intend to direct the loans exclusively to finance private investments, multiplying the investment possibilities of the country and filling the investment gap.

The Growth Plan of the Pissaridis Committee ritually repeats the proposals which have already failed in the past: privatizations as a lever for growth, labour market flexibility to boost competitiveness, large capital facilities to attract investment, leaving absent the real economy, households and small and medium enterprises[91].

Especially, since the coronavirus crisis has created an insecure international environment, it is considered especially disappointing that many privatizations planned may not be initiated in the near future. Some characteristic examples are the privatization of significant assets of the Public Private Property Utilization Fund (HRDF), while the privatization of others in infrastructure, real estate and companies is still pending. In particular, infrastructure privatization projects are underway (regional ports, marinas, Egnatia

88 Dimitris Douvris: *COVID-19, New facts and prospects in the M&A sector*, Grant-Thornton.gr, 15 Oct 2020, https://www.grant-thornton.gr/insights/article/COVID-19-ma-outlook-gr/

89 Costas Tsaousis: *Foreign investments that change the climate in the Greek market*,Ta Nea, 7 Oct 2020, https://www.tanea.gr/2020/10/07/economy/economy-greece/oi-ksenes-ependyseis-pou-allazoun-to-klima-stin-elliniki-agora/

90 Nikas, Sotiris: *Greece Offers Tax Breaks to Lure the Work-From-Anywhere Crowd*, Bloomberg, 11 Nov 2020 https://www.bloomberg.com/news/articles/2020-11-11/greece-seeks-to-lure-workers-from-abroad-with-new-tax-incentives

91 Yannis Agouridis: *Recovery Fund / Plan without the middle class in the shot*, Avgi, 22 Nov 2020, https://www.avgi.gr/oikonomia/372415_shedio-horis-ti-mesaia-taxi-sto-plano

Odos, underground gas storage), real estate (Elliniko, Golf Afandou, Antirrio construction sites) and companies (DEPA Commerce, DEPA Infrastructure, Athens International Airport). Many more projects are in the initial stages of planning, including the concession of Attiki Odos, the sale of shares of the Hellenic Public Power Corporation[92], Hellenic Petroleum, Water Supply and Sewerage Company, as well as tenders for marinas, ports, thermal springs and real estate.

Another characteristic example showing that the government realizes the public sector as its property is the recent case of AEGEAN airlines. As long as AEGEAN was profitable, and the shareholders enjoyed the dividends there was no problem. However, when, due to the pandemic, deficits were created, the shareholders asked for a subsidy from the government, but without accepting – and not even been asked – to concede shares of equal value to the Greek State as we saw in other cases in Europe. Finally, even if the unprecedented conditions have highlighted more than ever the importance of a strong Public Health System, the Greek government, provocatively, already stresses the importance of the private health sector in Greece and how good practices should be channelled to the public system. The disintegration-dissolution of the public health system for decades, not only during the memorandum period, cannot meet the projected sizes for diagnoses, massive testing, hospitalizations and of course to manage the issue of deaths. The answer, however, of the government does not include increasing public spending for health with creating job placements and bold funding.

LABOUR FACING THE CRISIS

The cohesion of the economy and society depends on supporting the quality of life of workers, the unemployed and the weaker households who are either already at risk or who face the risk of falling below the poverty line.

In the first section of the report, the measures taken in order to boost demand overlap with some of the facilities for employees. Initially, a postponement of the payment of regulated tax debts and an extension of the unemployment benefit for two months is introduced. An unemployment benefit of €400 is also provided for the long-term unemployed. An additional political option for financial support of employees, in view of the Christmas holidays, is that the employees of the companies until yesterday, 4 November 2020, who are suspended during the month of November, will receive €800 instead of €534 in December, calculated proportionally for the days suspended. An important measure is also the reduction by 40% of rent for employees who have been suspended from work.

However, during this challenging period for the employees the government urged to submit a fully anti-labour bill, showing once more the obsessions against the social majority and only in favour of the few. Among others, the bill ensures an increase in the allowed overtime instead of creating new jobs and extending the working time at the individual responsibility of the employee. "Under certain conditions, companies will be able to employ employees for a maximum of 10 hours per day, without additional remuneration, if within the same 6 months they pay the hours with a corresponding reduction of hours or days off" was the announcement by the government. Additionally, the law completely dissolves the system of mediation of labour disputes and mediation of Labour Inspectorates, and weakens and depreciates the role of the Hellenic Labour Inspectorate.

In the near future, especially the employees of sectors that are heavily affected by the pandemic should receive the support of the state by enabling the procedures and applications and ensure that it will take place in a fair and inclusive way. It could be argued that, given the situation, the unemployment percentages have not risen too much in Greece since the start of the pandemic crisis. However, there is a number of factors that affect this. First and foremost, in order to receive some benefits, companies are obliged to keep the employees, a fact that has restrained the redundancies to a certain extent. However, this does not always work remuneratively for employees as many of their protection measures are partly implemented or not implemented at all.

According to the Budget for 2021 (emphasizing the fact that the Budget is subject to possible changes according to the course of the health crisis) the coverage of insurance

92 *Selling off PPC and ADMIE*, Avgi, 12 May 2020, https://www.avgi.gr/arheio/353334_xepoylane-dei-kai-admie

contributions and the subsidy of €200 will be covered from the state budget, in case of employment of a long-term unemployed person, for a period of 6 months under the programme aspiring to create 100,000 new jobs, at a cost of €302 mio. for 2021.

UNIONS' ROLE

In the midst of the unprecedented crisis experienced by the whole world, due to the coronavirus pandemic, the irreplaceable role of the unions in defending the interests of the workers, to claim their demands, to demand measures for their survival especially because, as mentioned above, the governmental plan is to create a flexible and deregulated environment for the Labour Market, in complete alignment with its neoliberal agenda. Already the trade unions demand the immediate renewal of collective wage agreements that have expired or are ending in the current period to prevent wage cuts. They also have an important role in negotiating and demanding actions taken to horizontally protect jobs in the private sector during the pandemic and also strengthen the State especially small and medium enterprises for this purpose. Some of them already submit policy proposals regarding the sector they are more active in and their support.

IN A NUTSHELL

The living standards are expected to deteriorate further, following the combination of the health crisis, the Greek economy struggling to stand on its feet after having already lived through a decade of crisis, and finally a weak effort on behalf of the government to provide answers to the real economy and protection of social cohesion. The solutions given now are temporary and some may turn out to be tomorrow's problems. The financial measures announced so far, apart from inadequate and bureaucratically hard to implement in many cases, do not in reality focus on the needs of companies and households but on the contrary enable the government' plan to eliminate the weak parts of the economy and let big interests flourish. In a constant denial to support public investment uses as an excuse for the increase of public debt, even if without them the danger of a public debt explosion is actually more likely, since the opportunity for economic recovery is blocked. In addition to that, the Growth Plan presented recently by the Pissaridis Committee presents a plan that takes us back to tragic political choices in favour of capital and without special care for social cohesion. It refers to the Greek economy ignoring some of its basic characteristics, and the analysis of the plan points to an economy that has not gone through a decade of exhausting crisis and austerity measures. Finally, the support of, equally, households and small and medium enterprises and their employees with bold measures is mandatory in order not to create "lost generations" or lost businesses.

Portuguese Government defensive actions

*By **Mauricio Rezende Dias**, PhD candidate in Political Economy at the Universities of Lisbon, Coimbra and ISCTE (Instituto Universitário de Lisboa). His works focuses on the role of institutions and culture in economic development.*

The objective of the work is to establish an analysis of the initial performance of the Portuguese State in the face of the problems generated by COVID-19 and an inevitable crisis that occurred because of the disease.

The text seeks to understand the process of coping with the Portuguese government's COVID-19 during the period from March 2 to November 16. Like many other countries, Portugal promoted a series of actions from Lockdown to economic assistance for people and companies. For a better analysis, we chose to divide it into six parts and better understand the Economic and Social Stabilization Program of June 6th, probably the most important government document for helping society in such context.

We know that, although the emergence of COVID-19 occurred at the end of 2019, the establishment of a worldwide pandemic and the consequent restriction of movement of people occurred in a very hasty manner, with the government not having the time necessary to analyze more depth measures that they may have to take. In this sense, many measures ended up having a temporary and even contradictory character compared to other separate sources.

Portugal is divided politically into autonomous regions (archipelagos of Açores and Madeira), districts, municipalities and parishes. As it is not a federation, the measures against COVID-19 were, to a large extent, carried out by the national government, which allowed a greater centrality of actions. In this sense, let us focus on measures implemented by the federal government via laws, decree-laws and the Council of Ministers.

In Portugal, from the Lei de Bases da Proteção Civil of 2006, categories were created with the objective of facing catastrophes or serious accidents, and vary between alert, contingency, calamity and emergency. Each category intensifies measures to be taken by public entities in the face of what has happened.

As a form of analysis, we will focus on measures promoted by the government via laws and decree-laws, and accordingly, we will begin the analysis on March 2, 2020, the date of the first public law related to the pandemic until November 6, the date of a new declaration of state of emergency. The analysis will be divided into three moments, one in which it starts on March 2 with the first law with exceptional measures against COVID-19 (Despacho n. º 2836-A/2020) until April 30, when it ends the period of state of emergency and the period of public calamity begins (Resolução do Conselho de Ministros n. º 33-A/2020).

The second period comprises the April 30 until September 11, the date of the resolution that decreed the end of the state of public calamity and the beginning of the state of contingency (Resolução do Conselho de Ministros n.º 81-A/2020). And the third period occurs between the September 11 and until November 06, in which there is a resurgence of the disease and a new state of emergency decree (Decreto do Presidente da República n. º 51-U/2020). The chosen periodicity allows for a better orientation of the measures that were taken from the changes in the existing framework.

Thus exposed, we intend to divide the work in this way:

1. Measures defined by the government on the demand side
2. Measures defined by the government on the supply side
3. Environmental measures
4. Sectoral measures
5. Measures in relation to public and private properties
6. Measures aimed at workers and trade unions

With this division, we intend to better understand the government actions taken to combat the crisis that occurred due to COVID-19 and to better understand the strategies taken.

MEASURES DEFINED BY THE GOVERNMENT ON THE DEMAND SIDE

On the demand side, there were some measures by the Portuguese government as a way of seeking to revitalize

trade and rekindle consumption. We chose to highlight the biggest initiatives that have been formulated so far.

It is important to highlight that the Portuguese process has as its landmark the Economic and Social Stabilization Program of June 6th and that it lists the main measures for a joint program for stabilization of the Portuguese economy after COVID-19. In this sense, a greater effort to improve on the demand side occurred in a second moment of government action, in a process of attempting to realign the demand that was lessened. I divide this section into three crucial points of analysis on the demand side.

In this sense, in this program the main ones stand out:

- Creation of the ATIVAR.PT program, in support of employment, and especially for the new unemployed. The program aims to cover 50,000 new unemployed people and focuses on supporting hiring and internships, in conjunction with programs for specific sectors and audiences. With a budget of €106 mio., the measure aimed to combat youth unemployment, with a view to recovering part of the consumption that had been lost in the face of the pandemic situation.
- With regard to employment, there are operations such as "CO3SO Urbano", with a view to encouraging entrepreneurship and job creation, especially in the interior of the country. This project, initially thought before the pandemic to boost the labor market in the interior of the country, was expanded to combat and encourage the worsening in consumption in all regions of the country, and its main measure is support for 36 months in order of €70 mio. for the hiring of open-ended jobs. The aid implies a flat rate of 40% aid on the direct costs of the jobs created.
- In the educational and scientific field, there is a search to support professional requalification, especially for people who were unemployed and laid off. The purpose of the requalification aims at a series of actions, such as the creation of short training courses in polytechnic higher education (cTESPs) in conjunction with employment networks, the insertion of adults in higher education and the articulation of companies with scientific institutions and centers of innovation. With a recipient around 30,000 people, the total amount is €70 mio., projecting part of its completion by the end of 2021.

There are other measures such as financial support for those who are in the social security regime in Portugal, but which should only crystallize in the year 2021.

MEASURES DEFINED BY THE GOVERNMENT ON THE SUPPLY SIDE

Undoubtedly, most of the government actions took place in defense of the guarantee of supply as a way to avoid a major crisis in Portugal. Auxiliary credit measures to companies, together with payment assistance to workers were the main measures taken by the Portuguese government. Although the most significant decree-laws occurred in the first moment of the response to COVID-19, measures that faced the realignment of the offer occurred during the three highlighted periods. It is also worth mentioning the creation of a development bank, a proposal that can reorient an entire conduct of economic policy hitherto based primarily on neoliberal values.

Below I list the main measures paved by the government:

- On March 13, 2020, a credit line was created to support the treasury of companies in the order of €200 mio., which, for reasons related to COVID-19, were unable to promote actions that would be carried out.
- There was a series of more specific sector support, such as the wine and fisheries sectors, which will be better analyzed later on.
- There was huge support for the maintenance of employment contracts in companies with a business crisis. In order to request government support, it was necessary for the company to have an abrupt drop of at least 40% of the revenue in the period of thirty days prior to the request with the Social Security services. Such a period would be compared to the monthly average of the two months prior to that period, or to the same month last year, or even, if you started the activity less than twelve months ago, an average of the period would be carried out. The supplement for worker assistance has a minimum limit of €100 and a maximum limit of €351 – it is worth remembering that the current minimum wage in Portugal is €635. There is also the possibility of a partial waiver of 50% of the payment of Social Security contributions. The extraordinary support started in March was scheduled for three months and was maintained in a second moment in June, totalling six months of ben-

efit. The fundamental conditions for support were the prohibition of collective dismissal, the extinction of the job and the unsuitability at work during the application of the measure and in the subsequent 60 days, moreover the prohibition of dividends during the application of the measure. Government support was of the order of €713 mio., and in the first moment of the pandemic response, it reached more than 100,000 companies and 800,000 workers. In a third phase of government aid, namely on the 19th of October, there was an increase in support for companies that had a drop in revenue of at least 25% in a period of one month.

- Creation of support for "Short chains and local markets". The goal is to help small merchants and farmers to move and maintain short chains of local agricultural production. The maximum amount of relative support per holder of a farm cannot be greater than €7.488 during the life of the project. Add €48 per trip if necessary. Such action is within the scope of the continent's rural development program.

- Creation of the ADAPTAR program, which aims to support companies in the effort of adaptation and investment in their establishments, adjusting methods of work organization and relationships with customers and suppliers to the new conditions of the pandemic context of the disease COVID-19, and thus guarantee compliance with established standards and recommendations from competent authorities. Micro, small and medium-sized enterprises can be helped in the project, and the eligibility criteria are as follow:
  1. To have the objective of making an investment in eligible expenses of not less than €500 and not more than €5000 for micro and small companies, and between €5000 and €40000 for medium-sized companies, to adapt the company`s activity to the context of the pandemic, ensuring the safety of workers, customers and relationships with suppliers. Complying with established standards and the recommendations of the competent authorities.
  2. To have a maximum duration of six months, and have a limit of December 31, 2020.
  3. Comply with legal and regulatory provisions. Possible expenses may be the purchase of personal protective equipment, the purchase of devices for automatic payment, the reorganization and adaptation of workplaces to follow the new hygiene guidelines, isolation physical space with the installation of partitions or protections cells, or any other physical control and distance devices, costs for information to the public and guidance for professionals and expenses of an accounting nature or statutory auditors. Support is provided in the form of a grant and the rate is 80% of eligible costs.

- Reinforcement of the volume of credit lines with guarantee until the end of the year of around €6800 mio., the maximum amount authorized by the European Union. The launch enabled the allocation of financing of up to €50,000 for micro and small companies in all sector of activity, as well as support for financing international orders, allowing companies to ensure liquidity conditions to meet the demand of foreign customers.

- Merger of the Instituição Financeira de Desenvolvimento S.A., SPGM – Sociedade de Investimento S.A., and PME Investimento into a single institution with the projection of creating a development bank to promote development and which allows exploring synergies through grater articulation and integration of investment support, to innovation and the internationalization of the economy. The name would be Banco Português de Fomento, S.A. The proposal is not aimed at replacing neoliberal market mechanism, but seeks to give some more systemic support to companies and projects with strong innovative content and with a vocation for global markets. The proposal also addresses the role of consolidating company growth and mobilizing projects that aim at significant changes in the country`s productive structure, aiming at a national economic development of greater reach in the long run. Transform in decree-law in the second moment of the pandemic response and the new institution is to be addressed to Portuguese companies, thus the following prerogatives are:
  1. Develop skills in the management of credit insurance instruments, enhancing public policies to support internationalization in collaboration with entities, which already operate in the Portuguese market today.
  2. Have the capacity to develop new support and financing mechanisms, particularly in a European context in which the implementation of the Inves-

tEU Program is being prepared, in which national promotional banks will have a fundamental role in channeling resources into the economy.

3. Comply with the commitment to create a green bank, providing financial capacity and accelerating the various existing sources of financing dedicated to investing in carbon neutral and circular economy projects.

Part of the investment for the creation of the Banco Português de Fomento, S.A. would come from the state budget and the European Union.

ENVIRONMENTAL MEASURES

Environmental measures took place punctually during the development of measures to combat the pandemic, that is, while measures to help companies and businesses were emerging, points related to environmental issues were raised. In this sense, I quote the two main measures of this nature:

1. The creation of Banco Português de Fomento S.A. – which derives from national institutions that must be merged – presupposes the creation of a green bank, which provides financial capacity and accelerates the various existing financing sources dedicated to investing in carbon neutral and circular economy projects. The financing of such credit lines would come from European instruments, namely via the EIB – European Investment Bank – and the European Union Budget.
2. Establishment of a set of exceptional and temporary measures related to "Sustainable Silviculture", arising from the "Protection and Rehabilitation of Forest Settlements" of the Rural Development Program of the Continent, abbreviated as PDR 2020. In the application, for support amounts of less than €500.000, a visit to the site will not be necessary, and the application must be made using alternative means that can collect the necessary information.

With these few measures, it is possible to define that environmental issues were left out of the main measures to combat the pandemic situation in Portugal[93].

SECTORAL MEASURES

Regarding to sectorial issues, there was no integrated plan for the sectors of the Economy, although specific aid has occurred for some sectors, which in some cases constitutes vertical support. However, such cases form a smaller proportion than horizontal aid and were mainly linked to the primary products and services sector. Below I list the main measures provided by the Portuguese government:

In relation to horizontal aid, there was an increase granted by the Minister of State and Finance in relation to export credit insurance with State guarantees, in support of customer diversification, in particular for markets outside the European Union.

1. From €100 mio. to €200 mio.: for credit insurance line ceilings with State guarantees for the metallurgical and mold sector.
2. From €100 mio. to €200 mio.: for insurance line for overseas works, with State guarantees.
3. From €250 mio. to €300 mio.: for the ceiling on the short-term export credit insurance line.

For the tourism sector, specifically for micro enterprises in the sector, € 60,000,000 was financed on March 25, ensured exclusively by Portugal's own tourism revenues. The support referred to the value of €750 per month for each existing job in the microenterprise on February 29, 2020, multiplied by a period of three months, up to a maximum amount of €20,000. Possible establishments that may receive support are listed in chart below:

- Hotel establishments
- Furnished accommodation for tourists
- Tourism in rural areas
- Other short-term accommodation
- Camping and caravan sites
- Restaurants
- Beverage establishments
- Car rental
- Travel agencies, operators, other reservation services
- Organization of fairs, congresses and other similar events
- Other sports activities (*)

93 It is worth remembering that there is an ongoing discussion in Portugal regarding the creation of a new airport in the Monjito region, a city close to Lisbon. Part of the criticism argues that the installation of the new airport would harm the local faun and would have negative local environmental repercussions. The discussion over the installation of the new airport has subsided during the pandemic period.

- Amusement and theme park activities (*)
- Activities of recreational ports (marinas) (*)
- Organization of entertainment activities (*)
- Other entertainment and recreational activities (*)

(*) Framed activities, as long as developed by tourist entertainment companies.

The benefit is reviewed on a quarterly basis and at each review, supporting documents will be required to confirm the maintenance of jobs. According to the government, in September 9 the relevance, opportunity and adequacy of the respective operating model was confirmed: in the space of just over two months, more than 5,000 companies had their applications approved, with an associated financing of around €40 mio., of which more than 90 % has already received the support granted and contracted in full.

On June 19, the wine sector support was given to distillers who hold production tax warehouses with the Tax and Customs Authority, updated in the national territory.

1. The support is part of the National Program to Support the Wineries Sector for the Financial Year FEAGA 2020, and had a secondary allocation of €12 mio.
2. Support is paid to the distiller per liter of distilled wine and includes the costs of supplying wine and its distillation, being corrected in relation to the chart below:
   - Wines with OD* 0.60 (euro) / L
   - Wines with IG* 0.45 (euro) / L
   - Wines with OD* from regions with specific viticulture characteristics identified in the Annex to this Order and which forms an integral part of it, 0.75 (euro) / L
   - Wines with IG* originating from regions with specific viticulture characteristics identified in the Annex to this Order and which forms an integral part of it, 0.65 (euro) / L

** – Geographical Indication (IG) is a seal that recognizes a wine area determined within a country for its different quality. This seal guaranteed that the products of that region have specific characteristics due to their origin. Denomination of Origin (OD) is a more restrictive subdivision within the IG.*

Producers, winegrowers and winegrowers-bottlers registered to exercise this activity can benefit from the support.

- On April 15, a credit line with subsidized interest is created, aimed at operators in the fishing sector. The credit line is intended to provide financial means for the acquisition of factors of production, for working capital or treasury, namely for the settlement of taxes, payment of wages and renegotiation of debts with suppliers, credit institutions or other entities authorized by law to grant credit. It is necessary that its registered office is in national territory and will be formalized through a written contract.
  1. The global amount of credit to be granted may not exceed € 20,000,000
  2. The maximum amount of credit is € 120000 per beneficiary.

Loans are granted for a maximum period of six years from the date of the signing of the contract referred to in the previous article and are amortizes annually, in installments of the same amount, with the first repayment due one year after the date foreseen for the first use of credit.

In each interest counting period, and throughout the duration of the loan, the following interest rate subsidies are attributed, differentiated according to the company's turnover:

1. Turnover up to € 500,000: up to 100 % bonus.
2. Turnover in excess of € 500,000: up to 90 % subsidy.

On May 6, there was a greater help to the sector, with a compensation for wages for small-scale fishing professionals, with assistance for payment resulting from a record of a drop in the value of fish equal to or greater than 40 % compared to same period in the last or two years ago.

- Within the scope of the Economic and Social Stabilization Program on June 6th, the Support Line for the Cultural Sector is approved on August 3rd. The Economic and Social Stabilization Program established a set of measures in the area of culture that should be delimited and developed, namely the support line for adapting spaces, the support line for independent cultural equipment (support line for professional artistic entities) and the social support line for artists, authors, technicians and other cultural professionals. This decree excludes support for the adaptation of movie theaters and similar venues that have exclusive conditions for cinema exhibition and other support for entities in the area of cinema and audiovisual, which were the subject of autonomous financing lines, to be operated by the Insti-

tuto do National Cinema and Audiovisual. In this sense, there are three main lines of support that focus on:

1. Support line for adapting spaces to the measures resulting from COVID-19;
2. Support line for professional artistic entities;
3. Additional social support line for artists, authors, technicians and other cultural professionals.

The support line for adapting spaces to the measures resulting from COVID-19 aims to support the adaptation of cultural spaces and facilities, namely theaters, movie theaters and cultural auditoriums, to the rules and recommendations of the competent authorities in the context of the COVID-19 pandemic, including methods of work organization and relationship with the public.

Private law legal entities based in Portugal who carry out activities of a non-profit nature and who own or are responsible for the management of the spaces and equipment referred to in the previous paragraph may request support under this line.

The following are not eligible for support under this line:

a) Private foundations or public foundations under private law that have other type of continuous funding, provided by the cultural budget program, as well as associations exclusively constituted by public entities and companies in the public business sector;
b) Entities that have benefited from other support or incentives aimed at adapting economic activity to the new context created by COVID-19, namely within the scope of the ADAPTAR Program;
c) The entities that own or are responsible for the management of movie theaters and similar venues that have exclusive conditions for cinema exhibition, which may request support within the scope of the lines to be operationalized by the Institute of Cinema and Audiovisual, I. P.

The following expenses incurred between 18 March and the date of submission of the application are eligible, for a maximum period of six months:

a) Acquisition of personal protective equipment, namely masks, gloves, visors and others;
b) Purchase and installation of sanitizing equipment and automatic disinfectant dispensing, as well as respective consumables, namely disinfectant solution;
c) Hiring of facilities disinfection services;
d) Acquisition and installation of automatic payment devices, covering those using contactless technology, including costs with contracting the service;
e) Reorganization and adaptation of workplaces and layout of spaces to the guidelines and good practices of the current context;
f) Costs with the acquisition and placement of information and guidance for employees and the public, including vertical and horizontal signage, inside and outside the spaces.

Available financial amount and support allocation order is €750,000. Each applicant is given a maximum value of €2,000 and support is granted in the order in which applications are submitted, up to the limit of the amount.

In the case of audiovisual shows, the allocation for this support line is €3 mio.. In the case of entities that are responsible for the management or programming, on a permanent basis, of public presentation or exhibition spaces, owned or contracted with third parties, each applicant is assigned a value corresponding to 35% of the annual amount that they would be entitled to receive. according to the score given by the assessment committee.

In the case of entities that are not responsible for the management or programming, on a permanent basis, of public presentation or exhibition spaces, owned or contracted with third parties, each applicant is assigned a value corresponding to 25% of the annual amount that they would be entitled to receive according to the score given by the assessment committee.

For other entities not covered by the law, each applicant is assigned the maximum amount corresponding to 50% of the losses proven to be suffered, namely related to ticket sales, sales of shows or co-productions, up to a limit of €7,500.

MEASURES IN RELATION TO PUBLIC AND PRIVATE PROPERTIES

The central point of this section, without a doubt, refers to the government's position with the airline TAP, which was assisted by the government, with the redistribution of its

participation in the company, becoming a majority shareholder. Other investments in public and private companies have also been made, although on a smaller scale. It is also worth noting that there was no measure prepared to prohibit the entry of foreign companies and industries.

On July 2nd, one of the most controversial and merchant chapters of government management around the pandemic ended: the huge government aid for the airline TAP. The State now controls 72.5% of TAP by paying an amount of €55 mio.. The other 5% belong to workers and a Portuguese entrepreneur now has 22.5% of the rest. Before, the government owned 50% of the company. In the sector itself, TAP's maintenance included a loan granted by the Brazilian company Azul Linhas Aéreas in the amount of €90 mio.[94].

Another relevant point was the promotion of a Banco Português de Foments created from the merger of three development banks to centralize economic guidelines on credit assistance for Portuguese companies. This merger occurred with the unification of three existing entities that were formed after Portugal's entry into the European Union in 1986.

The first of them was formed in 1989 in the form of a limited liability company, and has adopted two names since its constitution. Initially created as SULPEDIP – Sociedade para o Desenvolvimento Industrial, S.A., in 1998 it changed its name to PME Investimentos – Sociedade de Investimento S.A., a name that remained until 2020. It currently has offices in Lisbon and Porto, with its headquarters located in Porto. PME Investimentos – Sociedade de Investimento, SA, is a financial company in the State business sector, subject to the supervision of Banco de Portugal and its mission is to promote the expansion and expansion of the financing offer to companies in the non-financial sector, in particular SMEs, namely through the management of special investment funds, vehicles of public policies to support the financing of companies, in the double aspect of equity and credit.

In 1992, another pilot company was created, SPGM, whose main objective was to test the interest of the mutual guarantee system with the market, similarly to what happened in other European Union countries. This entity also had the mission of preparing a legal framework that would regulate the entire Mutual Guarantee sector in Portugal, as well as the respective counter-guarantee mechanism.

Since January 2003, there are three SGMs (Norgarante, Lisgarante and Garval), which have continued their operating activity previously exclusive to SPGM. On 2 January 2007, Agrogarante started operating, specifically designed to support the primary agroforestry sector. The others refer to the locations in which the company operates, with Norgarante related to the North of the country, Lisgarante to the South and Ilha da Madeira Garval to the central regions and Ilha dos Açores.

The sharing of risk with other financial entities facilitates companies' access to credit, freeing bank ceilings and allowing the obtaining of amounts, cost and term conditions adapted to needs, usually with a reduction in other guarantees provided to the financial sector by companies.

The Financial Institution of Development S.A. whose main objective is to finance small and medium-sized Portuguese companies was the last to be created in 2014 and headquartered in the city of Porto.

These three organizations, originating in different ways and with different objectives, now focus on just one institution with the objectives of consolidating better government assistance for Portuguese companies and their possibilities for expansion at national, European and world level. With this new guideline, the government modifies its interference in the market, aiming to support consolidation and business growth operations, projects that mobilize the structural transformation of the production base, economic sectors and companies strongly exposed to international competition with strategic content for national economic development. According to the government, the new institution must:

- Develop skills in the management of credit insurance instruments, enhancing public policies to support internationalization in collaboration with entities, which already operate in the Portuguese market today.

94 Both in the specialized portuguese press and in businessmen, there was a lot of criticism for the help to TAP and the high amounts paid to maintain the airline. Obviously, there were also defenses in favor of the workers on TAP and their aid.

- Have the capacity to develop new support and financing mechanisms, particularly in a European context in which the start of the implementation of the InvestEU Program is being prepared, in which national promotional banks will have a fundamental role in channeling resources into the economy.

With the brand appearing on November 3[95], the new bank starts with a share capital of €255 mio.[96]. Its share capital is divided into 41.28% of the Portuguese State, 47.01% captained by IAPMEI (Agência para Competitividade e Inovação) the Instituto do Turismo de Portugal has a 7.93% stake and the Agência para o Investimento e Comércio Externo de Portugal takes the remaining 3.77% of the share capital. The last three institutions, which are public but independent, share 58.71% of the new bank's share capital. It is a little strange to notice that the government don't have the majority of the capital social of the new bank and there is considerable part is linked to an institution that aims to sponsor tourism.

MEASURES AIMED AT WORKERS AND TRADE UNIONS

There was great concern on the part of the Portuguese government regarding workers. The support directed to companies, already indicated in this work, had as a counterpart the maintenance of existing jobs since February 2020. Undoubtedly, the law of October 23 – amended on November 5 – was the most comprehensive and important in which refers to aid to workers, and came within the scope of the Economic and Social Stabilization Program released on June 6th.

- On March 18, the present ordinance defines and regulates the terms and conditions for the granting of immediate and temporary support, aimed at workers and employers affected by the outbreak of the SARS-CoV-2 virus, with a view to maintaining jobs work and mitigate business crisis situations. The measures referred to are as follows:

  a) Extraordinary support for maintaining employment contracts in situations of business crisis, with or without training;
  b) The extraordinary training plan;
  c) The extraordinary financial incentive to support the normalization of the company's activity
  d) The temporary exemption from the payment of Social Security contributions, borne by the employer.

Extraordinary support for maintaining a work contract in a company by business crisis situation takes the form of financial support, per employee, attributed to the company, intended exclusively for the payment of remuneration.

The employer communicates, in writing, to the workers the decision to request extraordinary support for the maintenance of jobs, indicating the foreseeable duration, after hearing union delegates and workers' committees, immediately submitting an application to the Social Security Institute, as well as the nominative list of the workers covered and the respective social security number.

During the period of application of this measure, the company is entitled to financial support in the same terms as provided for the Labor Code, lasting one month. This support may, exceptionally, be extended on a monthly basis, up to a maximum of 6 months.

On April 16, were the procedures for the granting of exceptional support to the family are regulated, from extraordinary support to the reduction of the economic activity of self-employed workers and to the maintenance of employment contracts in a situation of business crisis, the deferral of contributions from self-employed workers and recognition of the right to an extension of benefits under the social security system. For the calculation of support, the remuneration considered corresponds to:

a) For self-employed workers, the average of the contributory tax base of the months in which there was a record of remuneration in the period of the 12 months immediately preceding the date of filing the application;

95 Unfortunately, as of the close of this text, we still have no information about the president and the orientation of his first term, only that the salary of the future president will be, in terms of value, the same as that of the prime minister (€ 5,436,6) or above.

96 There is criticism in the Portuguese press regarding the feasibility of such a project. Some also identify that Banco Português de Fomento will only be adequate to its proposal if it receives a larger amount of money than the initial values thought.

b) For managing partners, the base remuneration declared in March 2020 for the month of February 2020 or, if there is no base remuneration declared in that month, the value of the social support index.

Extraordinary support for maintaining employment contracts:

1. In the context of extraordinary support for maintaining the employment contract, the calculation of the remuneration compensation considers the remuneration benefits normally declared for social security and usually received by the worker, relating to basic remuneration, monthly premiums and regular monthly allowances.
2. The inclusion of new workers during the period of granting extraordinary support for the maintenance of employment contracts, in addition to those identified in the initial application, is made through the delivery of a new attached file, with the payment of support being granted for the remaining period.

On August 18, exceptional and temporary measures take place to safeguard the rights of workers and students of public higher education, especially with regard to the right to vacation. Any change to the academic calendar, or to the end of the deadlines in the case of scientific research projects, takes due account of the right to holidays for all teaching and non-teaching workers, researchers and students.

On October 23, the conditions and procedures for the granting of extraordinary social protection support to workers in situations of economic and social deprotection and who do not have access to any social protection instrument or mechanism, provided for in the Economic and Social Stabilization Program, take place.

Access conditions:

1. Access to support is available to people who are in a situation of economic and social deprotection and in a situation of cessation of activity as employees, including in domestic service, resulting from the SARS-CoV-2 pandemic.
2. Self-employed workers covered by the respective social security regime who are in a situation of economic and social deprotection and have had a break in the services usually provided equal to or greater than 40%, resulting from stop, reduction or suspension, may also access support. labor activity due to the SARS-CoV-2 pandemic.
3. Self-employed workers who are in a situation of economic and social deprotection and who are beneficiaries of one of the supports provided for in specific decree-laws may also request support, when the amount of such support is less than that of the social support index.
4. Only residents in national territory can access.

Regarding help for beneficiaries of the Pension Fund for Lawyers, the workers covered by the Pension Fund benefit from the support and is granted and paid by CPAS – Caixa de Previdência dos Advogados e Solicitadores – with the necessary adaptations.

Czech Republic: An Economic Colony without a Plan for National Development

*by **Ilona Švihlíková**, vice-professor in International Economics and holds a Ph.D. title in Political science. She works as a macro-economic analyst for the Bohemian-Moravian Confederation of Trade unions, is a member of the National Economic Council of the Czech Government (NERV), a governmental advisory body. She founded the grassroot organization Alternativa Zdola focusing on local economy and citizens´ participation. Currently she works at the University College of Business in Prague.*

The article presents an analysis of anti-crisis programmes implemented in the Czech Republic. The structure corresponds to the given format and takes into account the development of economic measures during the first and the current second wave of the pandemic.

The author is a member of the Czech Government's National Economic Council, and thus has access not only to vast economic materials, but also has knowledge of political negotiations and the arguments used by various political parties, lobbyists and other interest groups and stakeholders.

DEMAND AND SUPPLY SIDE SUPPORT

To analyse the demand and supply support measures is rather a difficult task. The reason is that the Czech Government (as shown by the outbreaks of pandemics in autumn) acts chaotically and without a sensible macroeconomic plan. The measures to support the economy are realized both by tax measures (abolishment of taxes, lowering tax rates, postponing payment of taxes) and by expenditure programmes. These programmes however are not conditioned; thus, the companies are not required to stop paying out dividends or to engage in share buybacks. Conditionality for companies using state support programmes is currently being discussed for the "Czech Kurzarbeit law", e.g. a Czech version of a permanent job protection scheme.

One of the first measures implemented (and prolonged) has been connected with job protection and purchasing power preservation. As the Czech Republic did not have any legislative mechanisms, the support programmes were created in haste. The job protection scheme took three various forms, called Antivirus A, B and C. Regime "C" aimed to help smaller companies (up to 50 employees). Companies eligible for regime "C" were exempted from paying parts of social security contributions for three months (June, July, August) under the condition they would not make more than 10% of their staff redundant and would hold the volume of wages up to 90% in comparison to March 2020. The conditions connected with this programme were aimed at securing jobs and purchasing power.

Currently there are three regimes of job protection active.[97] Regime A+, A and B. Regime B can be used when there are obstacles on the side of the employer (e.g. low demand for goods). The support amounts to 60% of eligible expenditures, at a maximum of CZK 29,000 per employee a month. Although this regime is popular with employers and also their representatives from business and industrial associations, there are economists who claim that this regime may contribute to preserving jobs that "no longer exist economically", thus consolidating economic structure without future perspective. It shall be noted, however, that the Antivirus regimes should run till the end of 2020 and then be substituted by the permanent "Kurzarbeit" mechanism.

Regime A pertains to employees who cannot work as they are in quarantine/isolation. The state support amounts to 80% of the wage with a set ceiling up to CZK 39,000 per employee per month. Because of the serious second wave of the pandemic, there is a new regime A+, which concerns companies that had to be closed (or their functioning was severely limited) because of the governmental measures taken against the pandemic. The contribution is 100% of wage + social contributions. Typically, this regime is suitable for restaurants. However, as there are many support programmes (COVID nájemné – where the state covers part of the rent), a company may not obtain support in excess of EUR 800,000. Furthermore, companies which could be (at the end of 2019) defined as companies in financial

97 MPSV: https://www.mpsv.cz/antivirus (Antivirus – employment support)

difficulties according to the definition of the EU are not eligible for the support.

Further support programmes (described in more detail in part 4) include the abovementioned COVID-nájemné (rent), COVID-kultura (culture), COVID Sport II, COVID BUS. Further measures include the support for the self-employed (CZK 500 per day); the self-employed may get a contribution for the care of children (as schools had been closed). However, the self-employed may not obtain both contributions. There is also a special programme for tourism.

Apart from these support measures, concentrating on the expenditure side of the budget (which means they are easily controllable), the government has decided to implement many changes within the tax system. In this manner, however, the transparency of the anti-crisis measures is reduced. Some permanent tax measures were even adopted in a speeded-up legislative process, which prohibited discussion about them and RIA (regulatory impact assessment) was not used.

A special demand measure has been aimed at spa resorts. The COVID-lázně[98] programme reflected the specific situation of Czech spa resorts, which are considered to form part of "national wealth" and some of them have been very painfully hit by the absence of foreign tourists. At the absence of an estimated 200,000 foreign guests, many spa resorts would experience a fatal blow. Further reasons for specific support were regional considerations (in some regions the spa resorts are the backbone of employment and economic activity), as well as providers of top healthcare and well-being services. The programme introduced spa vouchers to the amount of CZK 4,000. However, belated preparation has caused some chaos and attractive spa resorts like Luhačovice were not able to fulfil the demands of all clients. Spa resorts had to fulfil certain criteria. Excluded were companies in difficulty and indebted companies. The criterion of EUR 800,000 as a common criterion for public aid was accepted with delay, as the notification of the programme in the EU followed when the programme had already begun.

The programme amounts to 1 billion CZK (which is a rather small sum, compared to other programmes) and can be viewed as successful, although the interest in spa resorts diminished because of the second wave of the pandemic. The vouchers are valid till the end of 2020, but a prolongation of the programme is possible.

As for the measures regarding investment stimulation, we can mention two issues. First are the government's plans to boost investment as a way to get out of the crisis. Although the state budget proposal includes increased state investment, the macroeconomic framework (see later in the text) is much less desirable. As for private investment, the proposed measures (at the time of writing this article) concern amortization issues. All these measures have already been recommended by the Budgetary Committee of the Lower House of the Parliament. However, they have not yet been adopted. The proposal includes extraordinary speed-up amortization, an increase in the ceiling for the price of tangible assets (up to CZK 80,000), which means these assets could be amortized immediately.

SUPPORT OF LIQUIDITY

Concerns about liquidity were one of the most discussed topics in the government and National Economic Council of the government. "Cash is king" was the favourite phrase of the representatives of the business community. Their demands for liquidity were, however, highly exaggerated, and, later at internal meetings, they had problems explaining their misjudgements.

The very first programme, Úvěr COVID I (Credit), was a failure. The management of the programme was placed in the hands of ČMZRB (Czech-Moravian guarantee and developmental bank). This bank is supposed to be the National development bank, however, for years its development has been neglected. The bank has low assets, not enough expert personnel and was all in all not able to deal with a flood of requests for guarantees. Loans without interest with a one-year deferral of instalments were the first programme (with a very low allocation of CZK 5 billion).

Programme COVID II reacted to the requests from companies and the self-employed. This time the ČMZRB was not asked to evaluate requests, but to work in a pool system,

98 MMR: https://www.mmr.cz/cs/narodni-dotace/COVID-lazne / (COVID – Spa)

offering guarantees for commercial loans at commercial banks. It was also able to offer reimbursement for the interest payments. This programme supported more than 7,000 projects, amounting to CZK 20 billion.

COVID III is a liquidity[99] support scheme for companies by guaranteeing operation credit (for companies that have limited activity because of the pandemic). The programme is again managed by ČMZRB – commercial bank, by pooling the portfolio of transactions.

COVID Plus is aimed at big companies, preserving their liquidity and export. The conditions include at least 250 employees, the share of export on sales for 2019 must be at least 20%. The manager of the programme is EGAP (export guarantee and insurance company), which can cover up to 80%; the 20% goes to the commercial bank. The request for the guarantee comes from the given commercial bank, not the company.

Further measures include the deferral of loan payments (especially important for households who have a mortgage). The deadline was the end of October. There are many more measures that can be viewed as support for liquidity. Deferral of various taxes is one of them.

Probably the instrument with the most important consequences that was presented as a liquidity measure is the implementation of loss carry back.[100] Loss carry back represents the "new wave" of governmental measures in the tax field. This very serious measure was also "pushed through" in a speeded-up legislative procress. The debate about this measure, which will lead to a big loss in state tax revenues (about CZK 30 billion), was very limited.

Loss carry back implemented in the Czech tax code is associated with many problems. As the corporate tax is a shared tax between the state and the municipalities, it leads to loss of tax revenue for municipalities. Loss carry back is more favourable for big multinational companies and it can even motivate these companies to transfer their losses to the Czech Republic. Generally, the measure also gives distorted incentives to companies as they are motivated to "create" a loss in advance as they know they will be able to write it off.

The author of this article was one of the economists who fought against this tax instrument and was at least successful in introducing a threshold for companies. Otherwise, there would have been no limit for big companies (as they are the main beneficiaries of this measure) to write off losses. Even worse, the implementation of loss carry back is a permanent measure in our tax code. Moreover, the Ministry of Finance has included loss carry back to the National recovery plan and is trying to "sell it" to the European Commission as a measure against the crisis and as an automatic stabilizer (amounting to almost CZK 30 billion!).

SHIFT TO A SUSTAINABLE ECONOMY?

Domestic support programmes are not oriented towards the transformation of the Czech economy, although that would be a desirable goal. As indicated, the existing programmes aim more to preserve the economic structures that exist. The drive for change towards a more sustainable economy is rather limited. There are several reasons for that.

The structure of the Czech economy is strongly industrial (c. 37% of employment, and GDP) and this is also viewed as a key factor of success. There are worries on all levels, from government to trade unions and employers´ associations that the shift to a "greener" economy could prove fatal for Czech industry. The industrial structure is closely linked to exports, thus has an interest in lower wages representing price competitiveness for the Czech economy. This model of cheap labour has penetrated economic thinking and governmental measures to a large extent, so many subjects are afraid of change as it could be an existential threat to their position.

Of course, the exchange rate is also of importance. However, the representatives of industrial sectors and business

99 MPO: *Measures supporting companies and the self-employed*, 27. Oct 2020 https://www.mpo.cz/cz/rozcestnik/pro-media/tiskove-zpravy/opatreni-na-pomoc-podnikatelum-a-zivnostnikum--253690/

100 ČMKOS: *Warning of the impact of unlimited loss carryback measures*, 28. May 2020. https://www.cmkos.cz/cs/obsah/219/varovani-pred-dopady-opatreni-neomezeneho-loss-carryback/266527

associations place much more emphasis on wages than on the exchange rate development. Nominally, the exchange rate of CZK to EUR is far from the purchasing power parity. The convergence is proceeding more through the price level, as there is a big differential between the level of inflation in the Czech Republic (exceeding the inflation target of the Czech national bank) and the low inflation in the Euro area.

Some aspects of sustainability and environmental concerns can be (so far) found in the frameworks of the National Recovery Plan. The main reason, of course, is that the component of green transition is directly requested from the European Commission. The Ministry of Industry and Commerce was the main actor completing the National Recovery Plan. This explains why the "green transition" is in the same chapter as physical infrastructure. Of course, the negotiations with the EC will continue and it is obvious that the proposals included in this chapter will be highly controversial. As for the money allocation, this is the biggest chapter as well.

In more detail, the National Recovery Plan includes investment to the amount of CZK 118 billion, whereas the chapter research, development and innovation only CZK 12.5 billion. In the chapter of Physical infrastructure and green transition, we can find "sustainable and safe transport" amounting to CZK 36 billion, the biggest of all the individual items. Further purposed categories include decline in the energy consumption, industry transition (usage of clean energies), circular economy and nature protection and climate adaptation.

As the negotiations about the National Recovery Plan with the EC have just started, it is difficult to determine which of these investment plans will be implemented.

HORIZONTAL VS. SECTORAL APPROACH

The support programmes currently implemented are both horizontal and sectoral. Horizontal programmes include the care benefit for parents (when the schools are closed), the above explained Antivirus programmes focused on preserving jobs. A further programme, called "COVID-nájemné" (rent), is a current programme where the state pays for half of the rent for business premises that had to be close because of the second wave of pandemics. The horizontal criteria would also apply to the self-employed, those working on the basis of temporary contracts and partners in a limited liability company. Of course, in all cases the individuals are eligible only in cases where there are severe obstacles to their entrepreneurial activity. The compensation bonus amounts to CZK 500 a day.

However, there are also special support programmes targeted at industries that are viewed as threatened. With the prolongation of the support there is a debate on whether it is possible to prolong the support "indefinitely", as it is becoming more obvious that some sectors/industries will be undergoing a profound structural change.

The list of these specific programmes includes:[101]

COVID-kultura (culture). It is a programme designed to help the creative industries. For entrepreneurs in the sector the support means 50% paid by the state for cancelled or postponed cultural events, 80% of all overhead costs. The programme further comprises one-off support for artistic and expert technical professions in culture of CZK 60,000 (more than EUR 2,000). The state will cover 80% of the rents.

COVID- SPORT II. This programme is designed to help entrepreneurial subjects in the field of sport. The programme has two variants. The first is aimed at subjects who compete professionally in leagues, in European or national leagues and for sports that compete in the Olympic games. The second is proposed for subjects arranging sport events.

COVID-BUS. This is a special support programme for long distance coaches. The compensation is measured by "seats a day". The compensation period stretches from March till June, thus is connected with the first wave of pandemic. The subsidies should offer greatest benefit to coaches with the highest environmental standards. The targeting group consists of 2,000 long-distance coaches, together with 9,000 buses. The budget of the programme amounts to 1 billion CZK.

101 MPO: *Measures supporting companies and the self-employed*, 27. Oct 2020 https://www.mpo.cz/cz/rozcestnik/pro-media/tiskove-zpravy/opatreni-na-pomoc-podnikatelum-a-zivnostnikum--253690/

COVID-tourism. This programme is administered by the Ministry for Regional Development. The programme contains support for tour operators, for travel agencies (CZK 500 for a cancelled tour/holiday), subsidies for incoming travel agencies (up to CZK 50,000, conditionally dependent on the three-year existence of the company, certain thresholds of sales etc.). The last group targeted are the tourist guides. Their subsidy is CZK 40,000, and they are eligible for a bonus if they provide educational courses or join reskilling courses.

Further programmes are focused also on exporters (problems with risks on foreign markets, losses on foreign markets because of COVID-19). During the first wave there was also a special programme for accommodation providers.

NATIONAL PROTECTION?

The topic of national protection has been discussed briefly in the context of the National Economic Council of the government. However, it has never really gained proper attention. The policy of the government concentrated more on immediate steps.

The topic of possible hostile take-overs by rich, foreign companies does not resonate so strongly because the Czech economy is, to a large extent, controlled by foreign multinational companies, and is thus strongly dependent on them and their decision.

To think more strategically about the protection of emerging national companies (including technological start-ups) represents a different mindset. The rhetoric of “free trade, free markets” is rather strong in the Czech Republic, partly because it offers policymakers the possibility of “washing their hands” of any problems and just claiming “that´s how markets work”. This is best reflected in the lack of any macroeconomic strategic document – the Czech Republic has never had one for the last thirty years, which means that the most important decisions are made abroad.

The suggested proposals included some suggestion of some form of quasi-equity approach. However, the discussions about this topic were always very careful not to speak too loudly about greater engagement by the state.

There is not a clear definition of strategic industries, so from the practical point of view, almost anything can be marked as strategic where the most influential lobbyists are. This means that, together with other factors mentioned in this article, the government does not hold the steering wheel.

PASSIVE VS. ACTIVE STATE

As indicated in the previous sections, the Czech government has not presented any measures containing public ownership or intervention aiming to acquire part of the capital.

Topics like takeovers of companies in difficulties by employees or a larger state engagement in defined strategic industries is almost “no go” in the Czech economic debate. The authors, who articulate these topics, belong to a clear minority of economists, as the mainstream stresses the free entrepreneurship and a limited role of the government in the rule of law.

To illustrate the debate, I may give the example of the Czech airlines (ČSA) and Smartwings[102], which is a company with a highly opaque structure that was seeking help from the government. This case evoked a debate about what the strategic industries are, and which measures should be taken for their protection.

It is highly doubtful if Smartwings has any strategic features[103] – it is not of high value, it is not a crucial employer, does not dispose of crucial knowhow or technology. Despite these facts, Smartwings vehemently demanded to be saved by the state, however its owners (who use various tax havens as well) refused to be “nationalized”, e.g. to have the state aid exchanged for a state share in the company.

102 Smartwings is the main owner of the Czech airlines.

103 Šteg, Jiří: *There is no reason for the state to rescue the gnawed bone of Smartwings*, 17. Junec 2020. A2larm. https://a2larm.cz/2020/06/neni-duvod-aby-stat-zachranoval-ohlodanou-kost-smartwings/

Instead, the owners of Smartwings used high-level lobbying and requested a state guarantee. State guarantee is a very weak instrument: it does not offer the government any direct rule over the company. The proposed saving of Smartwings was therefore in contrast to the process by the German firm Lufthansa. As the case of Smartwings generated a lot of publicity, in the end the government did not apply any specific programme for this company, but implemented the COVID Plus (mentioned above), which is a guarantee programme specially targeting large companies. Thus, Smartwings was also eligible.

Another example of a heated debate could be the issue of food self-sufficiency.[104] The prepared law that regulates the share of Czech foodstuffs in supermarkets was halted in the Parliament and is presumably "dead". Although the self-sufficiency in agricultural products, especially pork meat, has been declining rapidly, there is no drive from the government to solve the situation. Governmental representatives acknowledge that the biggest problem is the power of the foreign supermarket chains (Billa, Lidl, Kaufland, etc.). In a TV debate, where the author of this article was together with the Minister of Finance, she claimed that the VAT for food cannot be lowered, because the foreign chains are very powerful and would only increase their margins, but would not lower the price of food. No word about the obvious fact that the Ministry of Finance should look into the matter and through financial authorities examine the margins and policy instruments these chains use vis-à-vis Czech producers.

We can claim that the Czech state is very passive, and its main role has been to establish advantageous conditions for foreign companies, especially with low wages and low engagement in formulating strategic macroeconomic goals.

WORKERS AND TRADE UNIONS

Starting with the measures, the Antivirus programmes were one of the first to be implemented with their main role to preserve jobs. Antivirus programmes are also viewed as very successful programmes, regarding the low rate of unemployment (2.8% as of September 2020). Compensation bonuses for the self-employed and those working on the basis of temporary contracts could also be included in this category.

Despite the fact that the Antivirus programmes are praised both by the trade unions and by the business associations, there are economists who claim that Antivirus keeps alive "zombie companies" and that it prohibits employees from finding a different, job with greater prospects. Currently, the permanent mechanism of "Kurzarbeit" (temporary unemployment in the Czech version) is being discussed. It should become a permanent mechanism from the start of 2021. Despite the time pressure, the law has not been adopted yet, as there remain many differences between the political parties, in the ruling coalition and also between the social partners.

As the author of this article is also the advisor to the Minister for Labour and Social Affairs and participates in some political negotiations, the following problematic issues can be summarized.

One "pocket" of problems contains the sum of reimbursement (how many % from the gross wage) and the scale of obstacles (simply put, how many days the company is working). Further issues include if the Kurzarbeit mechanism should also cover those who work on the basis of temporary contracts, which the trade unions oppose. Also very controversial is the issue of social contributions. The trade unions are afraid that a longer period in Kurzarbeit would have negative consequences for the employee's pension. Furthermore, there is discussion around whether there should be a special bonus for reskilling (different work content for the same employer, or even different job skills altogether).

The Ministry of Labour and Social Affairs is trying to introduce a conditionality, namely the prohibition of dividends outflow for companies that use the Kurzarbeit. As expected, some business representatives "worry" that this would weaken their competitiveness.

104 Daňková, Terezie: *How to achieve food self-sufficiency to make it work?*, !Argument, 25.March 2020. http://casopisargument.cz/?p=28297

The situation on the Czech labour market is very specific. Before the outbreak of the pandemic, the labour market was very tight, with many vacancies and very low rates of unemployment. This also created pressure to import labour force, especially from Ukraine. Analysis of the current state is rather blurred. First, the Antivirus programmes and other support sectoral programmes are running, therefore it is rational to assume that the rate of unemployment will increase over time (and would increase in a shocking way if these programmes were abandoned). Second, officially there are still many vacancies reported and many companies claim "they cannot find staff". However, the statistics are distorted, as many companies place the advertisement more than once, setting the wage so low in order to gain cheaper workers from abroad. The Ministry of Labour and Social Affairs pursues changes so as to make the statistics transparent, not only for the number of vacancies, but also the structure. The current knowledge (presented e.g. by the Czech Statistical Office) tells us that about two thirds of the vacancies are connected with low skills and basic levels of education.

The current data (third quarter of 2020) state that overall employment decreased by almost 73,000 people. Also, the number of self-employed people and entrepreneurs decreased. Numbers of economically inactive people increased, mostly by women.[105]

The differently viewed situation on the labour market reflects itself also in the government. The main coalition partner, the ANO movement led by the billionaire Andrej Babiš, is inclined to business associations and finds that no new jobs are necessary as there are plenty of vacancies. On many occasions in the NERV meetings, the prime minister claimed that no support for new jobs is necessary, as nobody wants to work in agriculture, citing the example of "picking asparagus". On the other hand, the junior partner, the social democrats, are more inclined towards the trade unions, they also control the Ministry for Labour and Social Affairs. The author witnessed many severe conflicts between the prime minister and the Minister for Labour and Social Affairs, Jana Maláčová.

It is obvious that, despite the programmes of Antivirus and later, possibly, the permanent mechanism of Kurzarbeit, some sectors will face a deep structural change. This regards especially tourism, parts of transport, hospitality and the catering industry, culture, etc. The government should therefore be preparing reskilling programmes. However, the state is very badly prepared for this situation.

First, the safety net is extremely weak. The unemployment benefits are very low and very restrictive. For low-income earners, the benefit can be about CZK 8,000, a sum people cannot survive on. The right-oriented opposition is against an increase in unemployment benefit and, together with the ANO movement, claims that there are enough vacancies. Of course, the very low unemployment benefits have further repercussions in the economy. They increase uncertainty and also "motivate" the employee, out of fear, to agree to a lowering of their wages. The consequences of such weak safety nets are therefore profound and threaten the process of wage convergence.

Second, the reskilling expenditure is underfinanced long term. There are not enough financial resources, the infrastructure is absolutely unprepared for the flood of people that will need to reskill. The state of reskilling programmes corresponds more to the situation where the labour market was tight but is unprepared for the coming situation. Unfortunately, the state budget does not allow for significant increases in financial resources directed to this field. What´s more, the abovementioned National Recovery Plan reflects various priorities. The labour market development and reskilling are in 5 from 6 megatrends. Moreover, the priority of reskilling belongs also to the priority of the EC. Despite this obvious fact, the National Recovery Plan almost completely ignores the needs of the labour market, but favours the reimbursement of loss carry back. Of course, this situation has its political framework and must be viewed in the context of tensions in the government, between the ANO movement and the social democrats.

Before analysing the role of the trade unions and their position and role in the pandemic, there is one more topic that is absolutely essential to mention, as it will influence the

105 ČSÚ: *Employment and Unemployment according to LFS results – Q3 2020, The number of workers aged under 45 has fallen*, 3. Nov 2020. https://www.czso.cz/csu/czso/cri/zamestnanost-a-nezamestnanost-podle-vysledku-vsps-3-ctvrtleti-2020

purchasing power of the workers, but mostly threatens to destroy the convergence process.

The issue is the abolishment of so-called "super gross wage".[106] This peculiar construct, unique in the world, is also anchored in the governmental declaration. The dispute is not about whether or not to abolish the "super gross wage", but how to do it.

The history of the construction of this "innovation" is connected with right-oriented governments. They planned to introduce the flat rate of 15% (a typically neoliberal instrument). Although this rate was implemented by the self-employed, by employees[107] it was found out that such a rate would lead to a fatal lack of tax income into the state budget. Therefore, the tax base was artificially increased by social contributions (therefore "super gross"). The tax rate is in reality not 15%, but 20.1%. It is not the aim of this article to analyse this peculiar tax construction (in simple terms, where you pay tax for a tax). The biggest political battlefield concerns the abolishment of this tax.

It is significant that no compromise (so far) could have been found in the government. Therefore, the main coalition partner is proposing the change to the Parliament not via a law proposal, but by an MP´s proposal. The given member of Parliament "happens to be" the prime minister. This proposal contains two rates (15% and 23%), so implementing a very slight progression. The problem is twofold. First, the proposal would lead to a permanent lack of finances of about CZK 90 billion! The finance minister has no idea how to compensate for such a budget hole[108]. The right-oriented opposition favours this proposal over the more budget responsible variant by the social democrats. Leaving aside that this may indicate the next coalition as the general elections will be held next year, the proposal includes many other threats.

From the budgetary point of view, the government has implemented many tax reforms that lead to deep holes in the budget. The estimates differ, but altogether with e.g. the abolishment of tax from real estate acquisition, amount to approximately CZK 130 billion. A country like the Czech Republic cannot afford to have such high deficits in the long-term period. As the right-oriented majority is a high probability as the leftist parties drift into insignificance, there are two scenarios possible, or their combination. Tax increase in VAT, therefore placing the burden on the weakest and threatening domestic consumption and/or the privatization of public services. It would be a déjà vu from the situation in 2012/2013.

Second, the proposal by the ANO movement does not help the purchasing power as claimed and threatens wage convergence. The proposal of 15% for low and middle up to higher middle-income groups means that the higher middle earners would benefit most (in fact, by several thousand CZK). The low-income earners do not pay any taxes (because of various bonuses for children etc.) and their gain from the tax change will be next to nothing. Thus, the expected boom of the purchasing power and therefore domestic consumption does not occur, as the higher-income earners tend to save more.[109]

Moreover, the prime minister claims that, because of this manoeuvre, it is not necessary to increase the wages. And here lies the core of the danger for countries in transformation like the Czech Republic. What we desperately need, is wage convergence towards more developed countries. For that, we need organic wage growth (breaking through the wage ceiling), which means stronger trade unions, collec-

106 Fassmann, Martin: *Super gross wages: the causes and difficulties of the backlog*, !Argument, 5. August 2020. http://casopisargument.cz/?p=30829

107 The Czech tax system is highly degressive, the most important taxes are VAT a natural personal income tax, focusing on employees. And it is the employees that pay the biggest burden of this tax (and of tax income in general), the self-employed have a choice of various tax regimes, so they are almost uncontrollable by any tax office.

108 The president, a supporter of the ANO movement, was not so much in favour of these proposals. But conceded in exchange for the promise that this change will be implemented only for two years. However, as known from practical economic policy, it is highly doubtful that after two years there will be an increase.

109 The Czech fiscal council: Statement of the Czech fiscal council concerning the amendment doing away with super gross taxation and loosening the fiscal rules set out in the act on budgetary responsibility rules. 4.11.2020. https://unrr.cz/en/statement-of-the-czech-fiscal-council-concerning-the-amendment-doing-away-with-super-gross-wage-taxation-and-loosening-the-fiscal-rules-set-out-in-the-act-on-budgetary-responsibility-rules/

tive bargaining and also concentrated efforts to change the economic structure from a dependent economy (colony) to a country with higher value added in domestic companies. There are, of course, various "tricks" as to how to block organic wage growth. Decreasing taxes (and weakening thus the position of the state if the taxes are not compensated by e.g. property taxes) is one of these tricks, further include the wealth effect (the case in the US – real estate bubble). None of these is a way for the workers, for wage convergence, on the other hand, it is a way of locking the Czech Republic into the trap of low wages forever.

The role of the trade unions is crucial, with numbers of their participants rising.[110] However, at the beginning of the pandemics, the tripartite negotiations were cancelled and have been restored only recently. Besides the topic of the "super gross wage", the trade unions are also seeking the increase in the minimum wage, another topic where the government is divided. Business association representatives would like to have no (zero) increase in the minimum wage.

The Trade Union ČMKOS is capable of presenting analyses and prognoses of higher quality than ministries. It does not concentrate only on labour market issues, but tax issues, and the macroeconomic aspects of the Czech economy's development. The influence of the trade unions is high, but the composition of the Parliament does not reflect this.[111] It may be that, after the general elections next year, the trade unions will be the only leftist power on the whole political scene.

CONCLUSION

The Czech government is devoting most of its efforts to support programmes (emergency measures) and, unfortunately, also to large and permanent tax changes. The position of the state is passive, the Czech economy is a typical dependent economy, where the major decisions are taken abroad.

There is a long-term lack of strategic thinking as the whole economy is penetrated by those who wish to preserve the position of a low-wage country.[112] Although the Czech Republic has been able to converge in wages over the last few years, the convergence is threatened by the current governmental measures, mainly by the abolishment of the "super gross" wage and its substitution by a low 15% tax rate for most of the income groups, leading to reasoning that "no wage increases are necessary", as the purchasing power will increase through the new tax regime.

The situation is thus not very optimistic, especially regarding the upcoming general elections where the right-oriented parties can prevail, with their usual tendency to increase VAT and privatize public services. The only force able to resist this may be the trade unions.

110 The main trade union association is ČMKOS – Czech-Moravian Confederation of Trade Unions.

111 An example, from the hard right political party TOP 09 came the suggestion that the state should pay the redundancy payments for the companies, as it is a big cost for them, so they can lay off people fast and easily.

112 Švihlíková, Ilona: *Colonies trapped*, !Argument. 26. Oct 2020. http://casopisargument.cz/?p=32278

Polish Government: Letting its people and its SMEs down

*By **Michał Menes**, PhD in economics, active mediator at the minister competent for labor, expert at the UN programs, former representative of the European Commission, in the ESF, Social Security and Textile Committees. His areas of work are: economy, social dialogue, social partner organizations, financing of European integration mechanisms, mediation.*

INTRODUCTION

Poland entered 2020 in a relatively good economic condition. According to the data provided by the government and by the NBP (National Bank of Poland), in 2020 and for the first time after 1989, a balanced state budget was enacted. The unemployment rate in January 2020 was 5.2 %, according to the data published by GUS (Central Statistical Office). The national economy and the macroeconomic plans defined by the government have run up against the reality of the coronavirus crisis, bringing the economy to a halt and with it a rapid decline of the value of Polish zloty (PLN) against Euro (EUR) and a surge in hidden unemployment.

Table 1: *EUR to PLN exchange rate over a five-year period showing significant increase during the pandemic*

(data from March 2020 to November 2020) data: bankier.pl

It should be noted that for a working population of 16.2 million, there were 527,000 unemployed according to BAEL survey (based on GUS standards that include individuals who do not look for work at all, there were 1.03 mio. unemployed by the end of August), but the inactive population reached 13.5 million. Thus, there was a significant increase in the inactive population by 217,000 in the 2nd quarter of 2020.[113]

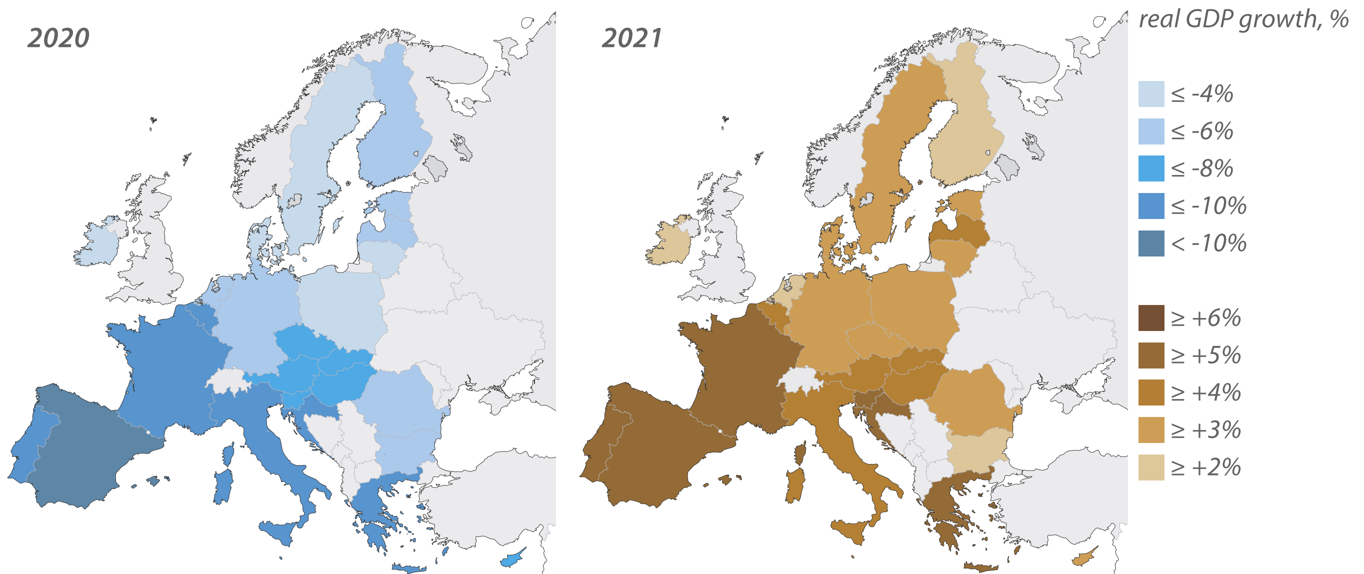
The deteriorating quality of life of the lowest-income segment of the population revealed the relative instability of social systems and total lack of resistance to external crisis. The best example are senior citizens: the power of the average retirement income against salary has dropped, placing Poland below the European average; our score (54.7 points) was below the average (59.7) and 30 points behind the Netherlands – the best country in the ranking (82.6). In 2020, the index dropped by 2.7 compared to 2019, which was more than in any other EU Member State.[114]

The assessment of the European Commission indicates that Poland is considered as relatively resilient to crisis. It is pointed out, however, that the recession that Poland will face will amount to a decrease in GDP of approx. 4.3% against GDP figures for 2019 (table1). Analysing the data, however, we have to consider the fact that Poland is still recovering from the crisis culminating after the turning point of 1989 and the changes in the social and economic system thereafter.

113 Central Statistical Office, Report on unemployment in the 1st and 2nd quarters of 2020, R. Drozdowski; *Daily life during the pandemic*, report on the second stage of research, full version, Adam Mickiewicz University in Poznań, 2020

114 K. Nowak, *Mercer CFA Institute Global Pension Index 2020*, as of 17.11.2020

***Table 2:** Growth map 2020 vs. 2021*



Source: European Economic Forecast, Spring 2020

INSTRUMENTS OF GOVERNMENTAL INTERVENTION – CENTRAL AND REGIONAL LEVEL

In Poland, programmes for economic support defined under the so-called 'anti-crisis shield' amount to PLN 212 billion (nearly 10% of GDP). According to independent bank experts, the figure comprises only 6.5% of the GDP after deducting EU funds that have already been contracted for public aid for Poland. In Central and Eastern Europe, the Czech Republic and Hungary pumped more cash into the economy during the coronavirus pandemic, but one must also consider the size of their economies.

The funds within the governmental anti-crisis shield consisted, among other things, in:

- A governmental cash component with a value of approx. 67 billion PLN (2.9% of GDP). It involves expenses incurred by the state budget, ZUS (National Insurance Institution) and funds for companies.
- A governmental liquidity component with a value of approx. 75.5 billion PLN (3.3% of GDP). It consists of: credit postponement and postponed charges, and liquidity financing in the form of credits and capital mainly with the use of financial instruments of the Polish Development Fund Group.
- The NBP (National Bank of Poland) liquidity package with a value of approx. 70 billion PLN that will ensure the necessary liquidity and loan requirements, implemented under the assistance provided by the European Central Bank.[115]

The European Commission's loosening of restrictions governing the granting of public aid has translated into support for the micro- and small enterprise sector through the award of non-returnable grants and tax exemptions and social allowances for up to 3 months.

The support has been divided into two components: a central-governmental component and a regional-local distribution component.

On a central-governmental level, addressed to micro enterprises (up to 10 employees) the following was guaranteed:

- write-off of social insurance contributions (for a period of up to 3 months),
- support in the form of micro-grants (to the amount of up to PLN 5000)

115 https://www.gov.pl/web/tarczaantykryzysowa/o-tarczy (Crisis shield)

Financing for medium enterprises, i.e. companies employing up to 250 people, has been apportioned into central and local aid components:

- subsidies for maintaining employment (up to 3 months)
- reliefs in social insurance contributions (up to 3 months)

The public aid policy was based on small injections of cash injections and exemptions from social contributions, and was conditioned on the need to maintain the company for a minimum of 3 months and to maintain the rate of employment for a minimum of 3 months from the time of the award of the grant in the case of micro-enterprises (employing up to 10 people) and for a period of 1 year in the case of small- and medium-size enterprises (employing from 50 to 250 people). It should be noted that the support provided under the shield does not include an option to extend the period of exemptions from social contributions, which reflects the limited efficiency of the instrument.[116]

INSTRUMENTS FOR SUPPORTING THE JOB MARKET

Examining state intervention in maintaining employment in the era of the coronavirus crisis, we can distinguish the types of support in maintaining employment according to the size of the enterprise.

State aid is granted to an entrepreneur in two circumstances: within the period of economic lockdown or when work hours have been reduced. The state pays up to 40% of employee remuneration.

An entrepreneur, on the other hand, who wants reduce work hours due to a drop in turnover caused by the emergence of the coronavirus pandemic, could decrease the employee's hours by a maximum of 20 per cent, but not more, than by half of the normal hours of work.

In the event that a company was forced to enter into lockdown due to a decrease in turnover, the governmental subsidy was a maximum of 50 per cent of minimum salary. In Poland, in 2020, the minimum salary amounted to 2600 PLN and only half of that amount could be compensated.

In both cases, i.e. both in the case of refunding salaries in the period of lockdown and in the case of reduction in work hours, the state also covered the costs of social insurance contributions payable by the employer.[117] However, this support only covered the period from March to June 2020 and was granted only for three chosen months, without any longer time perspective to provide security for their enterprises and their employees after the lockdown, meaning that the period of time when enterprises received support was dramatically brief.[118]

In addition, following the closure of the education and childcare sectors (closing preschools, nurseries and schools), the government has prepared subsidies in the form of a childcare allowance for parents forced to stay at home, up to 80% of their normal salary.

The first wave of state intervention resulted in temporary stoppage of the initial trend of company liquidations, especially among micro-enterprises. Certain aspects of the short-term effects of the anti-crisis shield have delayed the liquidation of micro-enterprises and, likewise in case of medium-sized enterprises, they stopped the process of employee redundancies. It is to be noted, however, that the real macro-economic effect, the number of corporate bankruptcies, a drop in the employment rate, shifts into the grey area, etc., will be visible only within no less than 6 to 12 months. At that point, the limitations following the award of a grant or subsidies for maintaining employment would cease to apply and we would then have a real picture of the true condition of the Polish economy.

However, the European Commission's loosening of the requirements for public aid has not affected enterprises already in difficult economic circumstances upon the outbreak of the coronavirus pandemic. Large and medium-sized companies with local revenue flows that had declared problems before the outbreak of the pandemic remained without any aid. The EC has denied its consent

116 T. Mleczak, *Nieskuteczna Tarcza Antykryzysowa*, (The Ineffective Crisis Shield) Rzeczpospolita, 21. March 2020

117 https://www.gov.pl/web/tarczaantykryzysowa/bezpieczenstwo-pracownikow (Pillar I: Employee safety)

118 Radzikowski, A.: *OPZZ Opinion on the Anti-Crisis Shield*, Warsaw,23. March 2020, *KIG Opinion on the Economic and Social Anti-Crisis Shield and proposals for extensions*, 19. March 2020.

for granting public aid in support of sectors undergoing restructuring or those deemed as being under threat.[119]

The second tranche of funds, apart from the state-funded component, has been allocated under 16 Regional Operational Programmes in each of the 16 voivodeships (the European Commission negotiates each programme with management of the voivodeship in question). However, the method of distributing these funds has revealed an extremely high bar for applying for these funds for small entrepreneurs and for the self-employed, despite the fact that the method of their distribution and the principles for awarding grants have been unified and are almost identical for each of the 16 voivodeships in Poland. Until September 2020, subsidies for changing the business profile of companies could not be implemented. Currently, in no fewer than two voivodeships, Łódzkie and Małopolskie, within one minute of the recruitment for public aid, about 28 thousand such applications were filed (Łódzkie) and ultimately cancelled.

This proves the lack of preparation and the absence of control mechanisms for the spending of these funds. Moreover, the funds for the above-mentioned support were originally intended to support innovations, including RES.

The state has launched a certain system of bank guarantees including a revolving working capital loan for innovative entities; the loans with a guarantee can also be used by eco-efficient companies that have implemented ecological solutions including, for example investments in renewable energy, within the last 5 years. The maximum value of the guarantee is EUR 2.5 million. The guarantee securing a revolving credit cannot exceed 39 months, while for investment loans the guarantee is up to 20 years.[120] However, the rate of use of the guarantees remains to be relatively low; for example, in 2019, it was only 3.46% of the planned guarantee line of 200,000,000,000 PLN. Since the anti-crisis package did not affect the granting mechanism nor the legal regulations governing the guarantees, a similar level of their use should be expected in 2020, and their efficiency may be evaluated in a two to three-year perspective.[121]

SECTOR-BASED AID

The applied instruments of intervention (credit relief, cash inflows) have paradoxically supported the banking sector to a large extent. The banks, fearing problems with the repayment of loans, are now suffering from an over-supply of money, at the same time introducing certain restrictions with respect to loans, e.g. for the self-employed.[122]

The support system for the banking sector has proved especially rich when compared with almost no support for other sectors. The Financial Supervision Authority (KNF) and the Ministry of Finance have developed a special regulatory package under which the controlling mechanisms over the banking sector have been drastically limited by

- lowering of capital buffers upon recommendation of the Financial Stability Committee,
- temporary approval by the Financial Supervision Authority (KNF) for the activity of banks being below aggregate liquidity and capital requirements (LCR) in justified cases and a flexible approach towards requirement pricing for the purposes of Solvency II (securing salaries) in the insurance sector,

119 Loosening the restrictions as to using public aid in the times of the coronavirus crisis has involved, e.g. direct grants, tax reliefs, advances up to an amount of EUR 800 thousand for a single enterprise, state guarantees for loans extended to enterprises, preference loans for enterprises, short-term insurances, supporting studies related to coronavirus, supporting the manufacturing of products being of importance in combating the coronavirus, support in the form of delayed payment of taxes or suspension of social insurance contributions, and support in the form of subsidies for salaries for the employees. In addition, while amending the temporary principles of public aid, the EC has allowed for supporting enterprises not financed in the form of recapitalisation or subordinate loans. https://sip.lex.pl/komentarze-i-publikacje/poradniki/pomoc-publiczna-udzielana-w-zwiazku-z-koronawirusem-151366016 Rudol Kamil: *State aid provided in connection with coronavirus*, LEX/el. 2020.

120 https://www.gov.pl/web/koronawirus/lepsze-gwarancje-wiekszy-dostep-do-kredytow2 (Better guarantees, more access to credit)

121 information on warranties and guarantees granted by the State Treasury, some legal persons and the state development bank, KPRM, WARSAW 2020, ZBP Communication on aid measures undertaken by banks in association with the COVID-19 pandemic, 30.03.2020

122 Report on the Financial System Stability, NBP, June 2020

- making the principles of estimating loan loss and market risk more flexible,
- moving certain supervisory duties.[123]

With regard to other sectors, the only visible support that is left is the support for the tourism sector in the form of vouchers for families with children to be used in holiday facilities throughout Poland. In that regard, the neglected sectors include the gastronomy sector and the sector of minor services such as local transportation companies, providers of tourism services, and so forth. The mere illusion of support remains, with bank guarantees where in order to get the grant, a tourism industry company is required to present proof of a positive financial balance and provide funds for co-financing the loan. The requirements are so absurd that, finding themselves in a state of crisis, companies in the SME sector typically lost what financial liquidity they may have had, and suffered losses. The textile industry market (TCL- textiles, clothing and leather sector) also noted significant losses in two areas of its activity.

First, the losses were noted by big enterprises like LPP or CCC listed on the stock exchange. The losses amounted to 30-40% of sales.[124]

Second, losses were noted by smaller subcontracting companies affiliated with textile manufacturers operating outside the territory of Poland. Based on the data provided by trade union, it is estimated that approx. 250 subcontractors in the TCL (textiles, clothing and leather sector) industry face significant financial problems.

The protection of domestic companies against acquisition attempts in the times of coronavirus also remains a fiction in this respect. The exposure to such risk manifests in targeting of companies with up to 250 employees of SMEs, which in times of the crisis, with the recapitalization of public aid, are targets of takeover attempts by global concerns. Excessive liberalisation of state aid provisions has really opened the door to this type of practice. Acting properly within the area of public aid should help counteract capital concentration and loss of control over small family-owned companies and guarantee protection against hostile takeovers by global concerns. The government has not introduced any instruments of control in this regard. The support under the anti-crisis shield was, apart from the above-mentioned exception of the tourism sector (to a very small extent), actually non-existent in the case of the sector of minor services, e.g. hairdressers, cosmeticians, the fitness industry, the so-called trades, entertainment, cinemas, theatres, and museums, the totality of which, in Poland, according to the estimates provided by the GUS (Central Statistical Office), employ approx. four mio. people, most of whom are young and in need of extra money while studying, and people making their first entrance onto the job market.

PUBLIC SECTOR, ENVIRONMENTAL PROTECTION, THE ROLE OF TRADE UNIONS

The government's attitude towards public enterprises is usually that of a passive relationship based on the principle of maintaining capital liquidity and the consolidation of state-owned companies, thus limiting their number. Let us use the example of the energy sector: the state-owned Polski Koncern Naftowy ORLEN, taking advantage of the benefits of public aid, acquires other state-owned companies, such as the Lotos Group (fuel sector) and PGNIG (Polskie Górnictwo Naftowe i Gazownictwo – the Polish oil and gas company) but also, under the guise of consolidation at a time of crisis, it takes control of the private media sector, including a group of local newspapers of the Polska Press Group, raising justified concerns about the freedom of the press, which is being bought up by, and consolidated in the hands of, state-owned companies.

However, the state limits its array of staffers by a programme of reductions within the public administration and governmental agencies, and it is estimated that approx. 10% of the 15,000 currently employed staffers will lose their job. Companies owned by the State Treasury exhibit passivity towards the problems of the coronavirus crisis. They do not see that there is a system of support for other companies (the CSR is a fiction). For example, state-owned companies unwillingly enter into debt settlement arrangements with private debtors that have also incurred losses during the

123 https://www.gov.pl/web/tarczaantykryzysowa/wzmocnienie-systemu-finansowego (Pillar IV: Strengthening the financial system)

124 *LPP had a net loss of PLN 362m, EBITDA of PLN 17.6m in Q1 of FY 2020/2021*, Money.pl, 25 June 2020, https://www.money.pl/gielda/lpp-mialo-362-mln-zl-straty-netto-17-6-mln-zl-ebitda-w-i-kw-r-obr-2020-2021-652520

coronavirus crisis and yet are often burdened with numerous penalties.

Another sector controlled by the State Treasury, PLLOT airlines, supported in 2012 by capitalisation amounting to PLN 400 million, has maintained its employment levels. A problem appears, however, in the local government companies that operate the airports. The crisis caused by a limitation of the number of flights affects the decentralised infrastructure, which has been left without support from public funds. The estimated loss suffered by airports up to the end of June is approx. PLN 0.5 billion. The two biggest airports, Frederic Chopin Airport in Warsaw and Kraków-Balice Airport are to be compensated for only 25% of their losses. The airports with lesser share in the market, e.g Łódź Airport or Modlin Airport, will receive funds to cover not less than 30% of their losses.[125] It is to be pointed out, however, that the governmental plan for financial support – public aid for the aforesaid entities – was so poorly prepared that it was not accepted by the EC. Work on a new financing model is still underway. This area of the economy generates approx. 2.5% of the state GDP, and regional airports alone employ approx. twenty thousand people.[126]

The automotive sector, the second largest industrial sector in Poland (10.1% share of GDP) also reported major turbulences during the coronavirus crisis. In April 2020, the number of new passenger and delivery cars registered in Poland dropped by 66%. Car manufacturers were forced to close their factories for several weeks: the Polish Fiat factory in Tychy, Toyota factory in Wałbrzych, Opel factory in Gliwice and Volkswagen factory in Poznań each had more than ten weeks of standstill. Initially, new car sales dropped by as much as 50%. The virtual halt in the demand for new cars also meant long standstill periods for component and parts manufacturers. The European Automobile Manufacturers' Association (ACEA) reported a 78% month-to-month drop in automobile sales in the spring of this year. In Poland, the drop was 67%.

After 1 January 2021, the most important players in the automotive industry – truck manufacturers – cannot homologate cars for compliance with the Euro 6d ISC-FCM emission standard. Because of the coronavirus crisis, the technical services and authorities issuing such homologations did not operate or operated to a very limited extent, and car manufacturers were unable to complete the required procedures, e.g. engine tests, vehicle tests, or road tests.[127] Support for the automotive industry also proved to be illusory. Meanwhile, a state-owned company shelved its long-term plans to build 'Izera' – a Polish electric car – after having to terminate the project at the model concept stage and with poor prospects for continuation of the project.

The role of social partners, including trade unions, in the time of a pandemic has been reduced significantly, despite the fact that a state of emergency has not been announced in Poland. The government, using the regulations with questionable legal quality, marginalised the process of social participation. During the first phase of the pandemic (March-August), the government shortened the time for social consultations, making it impossible for social partners to participate in making key decisions, and the option of consulting outbreak support programmes proved to be illusory.

The acts adopted within the so-called anti-crisis shield have radically interfered in the Polish provisions governing the employment market (the so-called Labour Code) and on their basis, the employer may change the time and the duration of work, shorten or limit the daily amount of rest or extend the daily work hours to 12 hours. Within the anti-crisis shield, the only subsidies exempt from taxation costs were the subsidies paid from the funds of corporate or inter-corporate trade unions to employee members of such organisations, in an amount not exceeding PLN 3000 in a given fiscal year.

125 Malinowski, Lukasz: EC rejects the idea of rescuing Polish airports. The government has a new solution, Rynek-Lotniczy.pl, 16. Sept 2020, https://www.rynek-lotniczy.pl/mobile/ke-odrzuca-pomysl-ratowania-polskich-lotnisk-rzad-ma-nowe-rozwiazanie-9574.html

126 Traffic analysis at Polish airports in the first quarter of 2020 by the Department for Air Transport Market Warsaw August 2020

127 Polish Press Agency, the losses incurred by the automotive industry is beyond retrieval in 2020, news release, 22 June 2020

A SIGNIFICANT AGREEMENT IN THE MINING SECTOR

In September 2020, there was, however, a significant agreement between the government and trade unions operating within the mining sector. An agreement was concluded concerning the extinguishing of coal mines as a destructive and non-renewable source of energy, having a negative impact on the climate due to CO_2 emissions.[128] Concluding an agreement with all trade unions is a significant change in the relationships of Polish social partners with respect to climate change. Until 2018, the issue was an important point of disagreement, within IndustriAll and the ETUC, and between Polish representatives of trade unions and social partners from the EU. The arrangement actually marks an end of the era of coal mining in Poland. The agreement assumes a system of social security for miners, whose severance payments are defined by the timeframe for liquidating coalmines that shall take place until 2049. The agreement assumes extensive support for mines under a public aid programme, and, as such, requires notification of the EC. The exceptionally strong mining sector benefits from the solidarity of its many trade unions. Apart from it and from the remaining programmes of support for other sectors of economy, there is no clear focus on the creation of new or long-term protection for existing workplaces, for local outplacement programmes, for training programmes or for support in generating opportunities for self-employment. The proposed support programmes, however, constitute an element of a strategy for influencing the job market, created before the pandemic and in conjunction with the EC. However, it is merely a makeshift solution lacking a vision for the future, offering no broader perspective for regional development after winding down the mining industry, and it is powerless to prevent the importation of cheap coal from Russia or Ukraine.

CONCLUSIONS

The coronavirus pandemic will result in long-term reconstruction of the fragile Polish economy. Together with a drop in GDP in 2020, Poland can expect an increase in the unemployment rate. EC experts estimate that it would rise to approx. 7.5% (in accordance with EUROSTAT methodology). It is also assumed that there will be a significant drop in trade – exports and imports will each decrease by approx. 9.8%. Another worrying factor is also the growing PLN-EUR exchange rate. Certain short-term tendencies related to low inflation in July and August 2020 are starting to change. According to the estimate of inflation provided by the GUS (Central Statistical Office), the CPI (Consumer Price Index) in September amounted to 3.2%, an increase of approx. 0.2%. from August 2020. The trend can be expected to continue to grow.

The coronavirus pandemic has provoked a need for strong anti-crisis activities that will have an impact on budget balancing policy. In accordance with the methodology accepted by the EC, the public debt will amount to 58.5% of GDP, which will not mean, however, a big debt for Poland compared to the debt level observed in other EU countries.

There are, therefore, questions about the mechanisms of state intervention, which, in the times of a pandemic have proven to be insignificant. Although, according to government data, 70% of the resources dedicated to combating the coronavirus crisis were exhausted during the first wave of the crisis.

The instruments of active support for companies and for their employees, consisting of short-term injections of a small amount of cash, helped briefly stabilise the situation for only 2-3 months. However, there are no broader plans to support the economy, e.g. through state investment projects or plans to support endangered sectors of economy, e.g. the TCL (textiles, clothing and leather) sector.

If subsidies for companies are awarded, as has been the case, on the basis of the condition that companies sustain themselves for a period of three months, will allow to determine how many of them survive and examining the support mechanism is possible only upon the lapse of the time for which the companies have been capitalised.. The regional support programmes underwritten by EU support funds (structural funds), have not been effectively allocat-

128 Kasztelewicz, Zbigniew: *Raport o stanie branży węgla brunatnego w Polsce i w Niemczech wraz z diagnozą działań dla rozwoju tej branży w I połowie XXI wieku*, (Report on the condition of the lignite coal industry in Poland and Germany together with a diagnosis of measures for the development of this industry in the first half of the 21st century) Akademia Górniczo-Hutnicza w Krakowie, Kraków, 23 April 2018

ed by Q4 of 2020. The anti-crisis shield project introduced in Poland proves to be an exceptionally weak and malfunctioning instrument of state intervention.

The mechanism for granting public aid used by the government lacks effective legal regulations that would protect domestic companies from hostile acquisitions. Thus, a domestic local company that receives financial aid from the government is at the same time left completely exposed to takeover attempts by global competitors, among others.

The crisis of the rule-of-law system in Poland, will make it yet more difficult for the right-wing government to conduct successful negotiations with the neoliberal European Commission as to the notification of public aid for the purposes of the arrangements negotiated with trade unions and concerning the liquidation of the mining industry in Poland.

To sum up, in the following year, it can be expected that the divisions within Polish society will deepen and that unemployment will grow due to the lack of active participation by the state in the area of fiscal policy and its minimal use of mechanisms for intervention in counteracting unemployment and social exclusion.

Ireland: Selling the Country to the Highest Bidder

*By **Emma Clancy**, economist specialising in illicit financial flows, financialisation and Eurozone economics. Since 2015, she has worked as a policy advisor for the European United Left (GUE/NGL) in the European Parliament on the Economic and Monetary Affairs Committee and the TAX special committees on tax evasion, tax avoidance and money laundering.*

INTRODUCTION

The Irish government responded to the outbreak of the coronavirus pandemic in Ireland by introducing a strict lockdown in March 2020, accompanied by government spending on various types of financial support for individuals and firms affected by the state-enforced suppression of economic activity. The first case of the respiratory virus (SARS-CoV-2) that causes the COVID-19 disease infecting a person in Ireland was recorded on February 29, 2020. Ireland introduced social distancing measures in March, leading to one of the strictest lockdowns on economic activity in the European Union (EU). The first lockdown caused a sharp decline in economic activity during the second quarter of 2020, with the exception of the pharmaceutical sector, which actually grew over the same period. Demand rebounded somewhat in the third quarter as containment and social distancing measures were gradually relaxed. The rise in infections after the summer led to the reimposition of a lockdown in October – again, one of the strictest in the EU. Domestic demand fell by almost one-fifth in the first half of 2020, and unemployment peaked at 30 per cent in June.[129]

The Irish government adopted a similar strategy as other high-income countries: to impose containment measures up to and including a total lockdown of economic activity in order to relieve pressure on the healthcare system. Social distancing measures were gradually relaxed mid-year before being reimposed in October in response to the so-called 'second wave' of the pandemic. Overall the Irish government's COVID-19 containment strategy mirrors that of the majority of European Union (EU) member states, and can be described as 'a rolling lockdown until a vaccine'[130]. There have been four main stages to the government's economic response: the first stage of emergency supports for the protection of incomes was rolled out in March; the second stage was marked by the July Jobs Stimulus programme; the third stage centred on measures included in the October Budget (2021); and the final stage to date has been implemented in October and November in response to the second lockdown.

Alongside the operation of automatic stabilisers and the annual state budget (Budget 2021, announced in October), the discretionary economic response has been legally underpinned by three main Acts: the Financial Provisions (COVID-19) Act 2020[131], the Financial Provisions (COVID-19) (No. 2) Act 2020[132], and the Credit Guarantee (Amendment) Act 2020[133]. The policy response throughout 2020 has aimed to protect jobs, ensure cash flow, and stimulate demand. Discretionary fiscal spending (including contingent measures),"unparalleled in Irish economic history", has amounted to €25 billion for 2020, or the equivalent of 12.4 per cent of modified Gross National Income (GNI*)[134]. The government committed to additional discretionary expenditure in 2021 of €12.6 billion, or 6.2 per cent of GNI*, in Budget 2021.

The Central Bank of Ireland (CBI) projected a decline in consumer spending of 10 per cent for 2020, noting that:

129 Department of Finance. *Taking Stock: The Fiscal Response to COVID-19*, November 2020. https://www.gov.ie/en/publication/84a0c-taking-stock-the-fiscal-response-to-COVID-19/

130 Mangan, Oliver: *Rolling lockdowns risk inflicting permanent damage*, Irish Examiner, 26 Oct 2020. https://www.irishexaminer.com/opinion/columnists/arid-40071002.html

131 *Financial Provisions (COVID-19) Act 2020*. 17 July 2020. http://www.irishstatutebook.ie/eli/2020/act/4/enacted/en/html

132 *Financial Provisions (COVID-19) (No. 2) Act 2020*. 1 August 2020. http://www.irishstatutebook.ie/eli/2020/act/8/enacted/en/html

133 *Credit Guarantee (Amendment) Act 2020*. 24 July 2020. http://www.irishstatutebook.ie/eli/2020/act/5/enacted/en/html

134 Department of Finance: *Taking Stock: The Fiscal Response to COVID-19*, November 2020. Page 8.

"Contact-intensive sectors, which also tend to be labour-intensive sectors, are likely to be the slowest to recover."[135] Surprising export figures indicating a decline of only 0.3 per cent in 2020 caused a massive revision of the CBI's projections for 2020 GDP. In its third quarterly bulletin, CBI forecast a decline in GDP of just 0.4 per cent in 2020 – an upward revision of 8.6 percentage points compared to the previous quarterly bulletin.[136]

Some of the prominent characteristics of the economic impact of the pandemic and its associated lockdowns in Ireland include:

- There has been a striking divergence between the impact on domestic demand and the impact on export performance;
- Labour-intensive indigenous sectors have suffered a disproportionate economic impact, resulting in remarkably high levels of unemployment;
- Ireland has experienced the smallest GDP decline in the Eurozone, but one of the largest consumption declines;
- There was a significant upward revision of the estimated economic impact on the Irish economy throughout 2020 as the limited impact of the pandemic on exports became clear.

The key characteristics of the Irish government's economic response to COVID-19 include:

- Like many other countries, the Irish state has engaged in uncharacteristically high public spending in the form of state aid for businesses, and welfare support for workers and the unemployed;
- The majority of the state's fiscal expansion in 2020 has been in the form of direct expenditure and direct taxation measures; indirect measures such as credit guarantees have provided the second tier of support;
- Government spending has aimed to protect the incomes of landlords and banks, alongside the incomes of workers and firms; while 'holidays' for mortgage and bank loan repayments were introduced, they were largely voluntary and dependent on the goodwill of the bank[137];
- There is an almost total lack of spending on climate-related measures;
- The fiscal support provided seeks to preserve and extend Ireland's status as an offshore global financial centre and tax haven;
- There has been no distinction made between indigenous and foreign-owned firms;
- The government has not taken the opportunity to impose any environmental, social and governance (ESG) or labour requirements on firms that receive state aid, nor has it taken an ownership claim in recipient firms;
- Government spending has largely followed a neoliberal horizontal model, with only the hospitality and tourism sectors receiving specialised support; and
- Increased discretionary spending to protect workers' incomes has been accompanied by attacks on the existing rights of workers and trade unions.

Against the backdrop of the unfolding pandemic, the Irish state held a general election in February 2020, and political parties spent the next several months attempting to form a government. A Fine Gael/Fianna Fáil/Green Party coalition was formed after agreement as reached on a Programme for Government in June. All three parties have previously been part of governments that oversaw harsh austerity programmes in the aftermath of the Eurozone debt crisis and the Troika bailout of Ireland in 2010. These parties have attempted to explain their "activist" fiscal response to the COVID-19 crisis and justify its divergence from their previous policies[138], while at the same time preparing the ground for the withdrawal of support measures and a quick return to 'balanced budgets' within the EU's stability and Growth Pact framework[139].

135 Makhlouf, Gabriel: *Macroeconomic impacts of COVID-19 and the monetary and fiscal policy response*, Introductory statement by Mr Gabriel Makhlouf, Governor of the Central Bank of Ireland, at the Special Oireachtas Committee on COVID-19, Dublin, 7 July 2020. https://www.bis.org/review/r200817i.htm

136 Central Bank of Ireland: *Quarterly Bulletin No.3 2020*, 3 July 2020. https://www.centralbank.ie/publication/quarterly-bulletins/quarterly-bulletin-q3-2020

137 McCabe, Conor: *Hope or Austerity: A Road Map for a Better, Fairer Ireland After the Pandemic.* A report for Unite the Union. 6 May 2020. https://unitetheunion.org/media/3027/hope-or-austerity-a-roadmap-for-a-better-fairer-ireland-after-the-pandemic-v2.pdf

138 Department of Finance: *Taking Stock: The Fiscal Response to COVID-19*, Nov 2020.

139 Department of the Taoiseach: *Programme for Government: Our Shared Future,* 29 Oct 2020. https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/

In November, the Department of Finance stated: "Once an effective vaccine (or other therapeutics) is rolled-out and economic recovery more firmly entrenched, fiscal support must be withdrawn in a gradual manner. That the cost of borrowing will no doubt rise as monetary policy becomes less accommodative, further emphasises the need to more closely align the revenue and expenditure sides of the fiscal accounts."[140]

TIMETABLE OF POLICY MEASURES

Table 1*: Timetable of policy measures introduced in response to COVID-19*[141]

DATE (2020)	MEASURE(S)
February 29	First case of COVID-19 recorded in Ireland.
March 12	All educational facilities including schools, universities and childcare facilities close for a two-week period.
March 16	Irish government establishes the pandemic unemployment payment (PUP).
March 24	The Temporary Wage Subsidy Scheme (TWSS) is established. All non-essential shops in Ireland close. All sporting events are cancelled.
March 27	First full lockdown introduced.
May 18	Easing of restrictions on workplace attendance; social distancing measures begin to unwind.
July 23	Government announces the July Jobs Stimulus package of €5.2 billion. The Employment Wage Subsidy Scheme (EWSS) replaces the TWSS.
October 7	A partial lockdown is reintroduced in response to COVID-19 second wave.
October 13	Budget 2021 to tackle COVID-19 recession is announced.
October 21	Ireland is first EU country to re-enter a full statewide lockdown.

DEMAND AND SUPPLY-SIDE SUPPORT

The Irish government has framed its economic policy as being a two-pronged, and two-phased, response to the pandemic. The first aspect of the response is short-term and demand-focused. This first line of response has aimed at stabilising aggregate demand in the economy. Many of the measures announced in March and July can be included in this demand-side policy programme.[142] The second aspect

140 Department of Finance: *Taking Stock: The Fiscal Response to COVID*-19, Nov 2020. Page 3.

141 Abridged from Department of Finance. *Taking Stock: The Fiscal Response to COVID-19*, Nov 2020.

142 Department of the Taoiseach. *July Jobs Stimulus 2020,* 23 July 2020. https://www.gov.ie/en/campaigns/5654a-july-jobs-stimulus/

is aimed towards medium-term economic stabilisation by focusing on the supply side – i.e, preserving the productive capacity of the economy. These supply-side policy measures were included in the initial stimulus programmes as well as in Budget 2021.[143]

The first stage of the government's economic response included the Temporary Wage Subsidy Scheme (TWSS) and the Pandemic Unemployment Payment (PUP). These two schemes, both introduced in March 2020, have had the most significant impact on protecting the incomes of workers and households. The PUP was a direct transfer from the government in the form of a boosted welfare payment to unemployed workers, while the TWSS aimed to keep workers attached to their jobs throughout the lockdown period[144]. Prior to this, there was not a comparable short-time working scheme in place in Ireland. Households were granted payment holidays on mortgages and personal bank loans, and allowed to defer payment on stamp duty and the local property tax. All of these measures aimed primarily to protect incomes and incentivise social distancing, while the TWSS also aimed to preserve jobs. Companies were targeted with various cash-flow and liquidity measures.[145]

The second stage of the government's economic response was the July Jobs Stimulus, which amounted to €5.2 billion, or 2.6 per cent of GNI*. This included €4.3 billion in additional direct expenditure, including the extension of the PUP and the transformation of the TWSS into the Employment Wage Subsidy Scheme (EWSS) and its extension until March 2021.[146] Tax relief measures worth €900 mio. for companies and households were also included in the July Jobs Stimulus.147 While the first stage largely aimed to protect the incomes of households in order to make it safely through the lockdown, this second phase explicitly aimed to boost aggregate demand in the economy against the backdrop of more relaxed social distancing measures. The July Jobs Stimulus also included €500 mio. in direct capital investment[148] – a significant measure, but an insufficient amount, in a state where public services have been chronically underfunded for decades and were at "breaking point" prior to the COVID-19 outbreak.[149] The capital investment includes spending on schools, transport and tourism.

The PUP is the single largest expenditure item for the government in 2020, amounting to €5.09 billion, while the TWSS/EWSS is the second-largest expenditure at €4.53 billion. The third-largest expenditure item was healthcare provision, with an additional €2.53 billion being directed towards the provision of personal protective equipment (PPE), the general COVID-19 response capacity, equipment, and testing.[150]

The third stage of the government's pandemic response – Budget 2021 announced in October 2020 – assumes a steady easing of restrictions in 2021 and a strong recovery from the pandemic. However, it also envisages a disruptive 'no-deal' British exit the EU. A flexible €3.4 billion Recovery Fund, equivalent to around 1.7 per cent of GNI*, is a central element. Budget 2021 boosts capital expenditure by almost €1 billion to €9.1 billion, an increase of 12 per cent on 2020 levels.[151]

143 Department of Finance. *Budget 2021,* 13 Oct 2020. http://www.budget.gov.ie/Budgets/2021/2021.aspx

144 Department of Finance. *Taking Stock: The Fiscal Response to COVID-19,* Nov 2020.

145 Ibid.

146 Department of the Taoiseach: *July Jobs Stimulus 2020,* 23 July 2020.

147 Ibid.

148 Ibid.

149 McCabe, Conor: *Hope or Austerity: A Road Map for a Better, Fairer Ireland After the Pandemic.* A report for Unite the Union, 6 May 2020.

150 Department of Finance: *Taking Stock: The Fiscal Response to COVID-19*, Nov 2020.

151 Department of Finance: *Budget 2021*, 13 Oct 2020.

Table 2: Direct expenditure measures in € billions[152]

Expenditure item	2020	2021	Total	% GNI*
Social protection (including Pandemic Unemployment Payment and TWSS)	10.37	3.18	13.55	6.7
Health (capacity, equipment, PPE, testing)	2.54	1.88	4.42	2.2
Education	0.32	0.23	0.55	0.3
Further and higher education	0.32	0.17	0.49	0.2
Business, enterprise and innovation	0.94	0.10	1.04	0.5
Housing, local government and heritage	1.10	0.05	1.15	0.6
Transport/tourism/sport	0.57	0.40	0.97	0.5
Other	0.64	0.38	1.02	0.5
Total allocated	16,78	6.39	23.17	11.4
Contingency		2.10	2.10	
Recovery Fund		3,40	3.40	
TOTAL DIRECT EXPENDITURE	16.78	11.89	28.67	14.1

Taxation measures, including a reduction in the standard VAT rate from 23 per cent to 21 per cent, have also aimed to increase demand. This six-month VAT cut entered into place in September at a cost of €440 million. A 'stay and spend' tax rebate was introduced to incentivise the purchase of food and domestic holiday accommodation. First-time homebuyers have been granted an income tax credit of up to €30,000 (increased from the existing tax credit of €20,000) in a 'Help to Buy' scheme that will run until the end of 2021.[153]

SUPPORT FOR FIRMS' VIABILITY AND LIQUIDITY

Policies enacted to prevent corporate insolvency have included taxation measures, a €2 billion credit guarantee, payments deferral and direct transfers.[154] To ease cash-flow problems, in March the government introduced the early 'carry-back' of trading losses for companies that had been profitable in 2019 – allowing them to receive an immediate refund of some or all of the corporation tax they had paid for the previous year. Another taxation measure aimed at firms' liquidity was 'warehousing' (the deferral of VAT and PAYE taxation payments with no penalty or interest). Tax debts incurred before the end of September 2020 were reduced to 3 per cent.[155] By November 2020, more than 70,000 businesses had used the tax warehousing scheme to defer payment of €2.1 billion in taxes.[156] Commercial rates (local government tax) have been waived for companies.

A direct transfer was introduced for companies affected by lockdown – the COVID Restrictions Subsidy Scheme – for the period from October 13, 2020 to March 31, 2021.[157] Under the CRSS, a company that has lost 75 per cent or more of its turnover in comparison to 2019 is eligible to receive

152 Abridged from Department of Finance: T*aking Stock: The Fiscal Response to COVID-19*, Nov 2020. Source: Department of Finance, Department of Public Expenditure and Reform. GNI* relates to modified Gross National Income and is projected at €202 billion for 2020.

153 Department of Finance: *Budget 2021*. 13 Oct 2020.

154 Makhlouf, Gabriel: *Macroeconomic impacts of COVID-19 and the monetary and fiscal policy response*, Introductory statement by Mr Gabriel Makhlouf, Governor of the Central Bank of Ireland, at the Special Oireachtas Committee on COVID-19, Dublin, 7 July 2020.

155 KPMG: *Ireland: Tax developments in response to COVID-19'*, KPMG website, updated 18 Nov 2020. https://home.kpmg/xx/en/home/insights/2020/04/ireland-tax-developments-in-response-to-COVID-19.html

156 Revenue: *Revenue confirms Debt Warehousing Scheme remains available to support businesses impacted by current Level 5 restrictions*, Press release, 13 Jan 2021. https://www.revenue.ie/en/corporate/press-office/press-releases/2021/pr-011321-revenue-debt-warehousing-scheme-restrictions.aspx

157 Revenue. 'COVID Restrictions Support Scheme (CRSS)'. Revenue website. 13 Nov 2020. https://www.revenue.ie/en/self-assessment-and-self-employment/crss/index.aspx

a grant of up to €5,000 a week. The relief consists of a cash payment of 10 per cent of the average weekly value of the company's turnover in 2019, up to €20,000, and 5 per cent thereafter, up to a maximum total weekly payment of €5,000.[158] It is aimed mainly at the hardest hit sectors of the economy such as retail and hospitality. This programme has been estimated to have cost the government €80 mio. a week during the second lockdown.[159]

Contingent support for companies includes the Credit Guarantee Scheme, which guarantees business loans of up to €1 mio. for up to seven years. Under the scheme the state gives a guarantee of 80 per cent to participating banks (AIB, Bank of Ireland and Ulster Bank). Various existing government agencies including Enterprise Ireland, MicroFinance Ireland and the Strategic Banking Corporation of Ireland are empowered to offer bridging and start-up grants and loans to companies. Enterprise Ireland offers rescue and restructuring finance for firms assessed to be viable but in need of changed business models. The contingent loans aspect of the government's response package for businesses appears to have been singularly unsuccessful to date, with very low levels of take-up. With high levels of existing debt, and no debt relief floated by the government, firms are reluctant to borrow.

***Table 3:** Contingent supports in € billions*[160]

Measure	2020	2021	Total	% GNI*
Credit Guarantee Scheme	2.00	0.00	2.00	1.0
Pandemic Stabilisation Fund (ISIF)	2.00	0.00	2.00	1.0
Future Growth Loan Scheme (longer-term loans)	0.50	0.00	0.50	0.3
Liquidity support through SBCI – Working Capital Loan Scheme	0.29	0.00	0.29	0.1
Sustaining Enterprise Fund	0.18	0.00	0.18	0.1
MicroFinance Ireland (loans)	0.04	0.00	0.04	0.0
Seed and Venture Capital Scheme	0.01	0.00	0.01	0.0
TOTAL CONTINGENT SUPPORT	5.02	0	5.02	2.5

CLIMATE AND ENVIRONMENTAL MEASURES

One of the most striking features of the government's economic response to the pandemic is the relatively very low level of spending on environmental projects aimed at decarbonisation. In the July Jobs Stimulus worth more than €5 billion, just €10 mio. was directed explicitly to greening corporations through the Green Enterprise Fund.[161] This includes supports for companies engaging in green research and development, and climate-related capital investment.

A more substantial proportion of the €500 mio. in direct capital investment announced in the July Jobs Stimulus may also be directed towards green investment. This in-

158 Ibid.

159 Burke-Kennedy, Eoin: *Government's business support scheme to cost €80m a week*, The Irish Times, 3 Nov 2020. https://www.irishtimes.com/business/economy/government-s-business-support-scheme-to-cost-80m-a-week-1.4398202

160 Departments of Finance and of Public Expenditure and Reform.

161 Department of the Taoiseach: July Jobs Stimulus 2020, 23 July 2020.

cludes up to €100 mio. for retrofitting buildings and homes; and €15 mio. for the restoration of peatlands (which are carbon sinks). However, the €113 mio. budget for investment in transport is not earmarked for public transport infrastructure but can also be spent on roads and other carbon-intensive forms of transport.[162] Even if the entire €113 mio. transport budget went towards public transport, the total additional discretionary spending on climate-related projects for 2020 would amount to €228 million. This is just under one per cent of the €25 billion in total discretionary spending for 2020.[163]

A HORIZONTAL APPROACH

Despite unprecedented public intervention in the economy, and unprecedented public spending, the Irish government has maintained its generally neoliberal approach to the economic recovery. Almost all spending aimed at supporting businesses has been indiscriminate and is equally accessible to all firms despite the social or strategic value, or climate impact, of these companies.

The Irish government has targeted only two sectors of the economy – hospitality and tourism – with sector-specific measures. As mentioned above, a 'stay and spend' incentive provides a tax credit of €125 if a person spends €625 or more on food and accommodation listed on the National Tourism Development Authority register between October 2020 and April 2021.[164] Of the €500 mio. provided for new capital investment in the July Jobs Stimulus, the majority of funds are directed towards government departments and climate, but there is an additional €40 mio. dedicated to investments arts, tourism, heritage and Gaeltacht (Irish-speaking communities) projects.[165]

NATIONAL AND FOREIGN FIRMS

No distinction has been made at the policy level between indigenous and foreign-owned firms, so long as they are domiciled in Ireland. Branches of multinational corporations that are registered in Ireland are entitled to equal supports as indigenous firms. The July Jobs Stimulus also earmarked €10 mio. to attract foreign direct investment (FDI) through new marketing initiatives of the state's FDI agency, the Irish Development Agency (IDA). In its 2020 country report on Ireland, the European Commission pointed out that an astonishing 22 per cent of Irish GDP in 2018 was composed of ongoing royalty payments, indicating widespread profit-shifting by multinational corporations dealing in intellectual property.[166]

PUBLIC OWNERSHIP STAKES IN FIRMS

Financial support from the government to companies comes with no strings attached. Government funding, including direct cash transfers, to business is aimed at restoring the economic viability of the company and nothing further. There has been no indication from any government representative of an intention to take a public ownership stake in recipient firms. There are no requirements whatsoever for any firm to meet employment, environmental or any other standards before it can qualify for government assistance. While some EU member state governments, and EU institutions, such as the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA), have called on credit and insurance companies that are recipients of public funds to refrain from paying out dividends and bonuses, or engaging in share buybacks[167], no such conditions have been applied to recipients of Irish government spending in response to COVID-19. Likewise, the Irish government has not expressed any intention to exclude firms from receiving gov-

162 Ibid.

163 Author's calculation.

164 Department of Finance: *Budget 2021*, 13 Oct 2020.

165 Department of the Taoiseach: *July Jobs Stimulus 2020*, 23 July 2020.

166 European Commission: *Country Report Ireland 2020 – Commission Staff Working Document*, 26 Feb 2020. https://ec.europa.eu/info/sites/info/files/2020-european_semester_country-report-ireland_en.pdf

167 Moody's Analytics: *EBA and ECB Recommend Prudent Distribution and Remuneration Policies*, 15 Dec 2020. https://www.moodysanalytics.com/regulatory-news/dec-15-20-eba-and-ecb-recommend-prudent-distribution-and-remuneration-policies

ernment support if they are domiciled in jurisdictions on the EU's third-country tax haven blacklist.

The Irish Congress of Trade Unions (ICTU) has called for progressive conditionality to be imposed on businesses that receive COVID-related government funding, including the exclusion of firms that are registered in, or have subsidiaries in, a jurisdiction on the EU list of non-cooperative tax jurisdictions; firms that pay out dividends or bonuses; and firms that engage in share buy-backs.[168] The ICTU has also called for supports to businesses to be conditional on recognition of trade unions, and commitments to provide decent work.[169]

The one area in which the government has asserted more influence is in the state's two-tier healthcare service, which is closer in style to the US healthcare system than to Britain's National Health Service or other western European systems. Ireland does not have universal access to primary healthcare, with more than half of the population forced to bear the full costs of a visit to a GP.[170] In March, the government rapidly boosted the Health Service Executive's (HSE) budget by €2 billion and ended a staff recruitment ban. Acting in accordance with Section 38 of the Health Act, the government reached an agreement with the state's 19 private hospitals stating they would function as public hospitals for 12 weeks, which was later extended. This expanded the state's healthcare capacity by 17 per cent instantly and created a temporary single-tier service.[171] The arrangement "is in effect a business contract where the physical assets remain in private hands while the service is made public".[172] The government has not indicated any intention to make these changes permanent and has pledged to unwind them after the pandemic.

WORKERS AND TRADE UNIONS

The Central Bank of Ireland forecasts an average unemployment rate across 2020 of 15.1 per cent.[173] In April 2020, more than 1.2 mio. people were receiving either the PUP, the TWSS, or another form of unemployment support.[174] The total unemployment rate, including recipients of all of these schemes, peaked at 29.1 per cent in April, while youth unemployment rose to 37.8 per cent. Female participation in the workforce fell to 52.9 per cent, which is lower than in the aftermath of the global financial crisis.[175] The CBI forecasts an unemployment rate of 8 per cent in 2021 and 7.5 per cent in 2022. During the second lockdown, as of November 3, 40,800 employers had registered for the EWSS and 330,000 workers were receiving the subsidy. The government reduced the level of payments in July, negatively affecting domestic demand.[176]

The CBI warns, "the phasing out of these schemes in 2021 will result in a significant increase in unemployment, owing, in part, to increased redundancies".[177] Trade unionists have urged the government, instead of abruptly withdraw-

168 Irish Congress of Trade Unions: *Submission to the Committee on Social Protection – Pandemic Unemployment Payment (PUP) Scheme*, 12 August 2020, https://data.oireachtas.ie/ie/oireachtas/committee/dail/33/joint_committee_on_social_protection_community_and_rural_development_and_the_islands/submissions/2020/2020-12-08_submission-natalie-fox-ictu_en.pdf; and ICTU: *Congress Budget 2021 Recommendations – No Going Back*, 2020. https://www.ictu.ie/publications/fulllist/ictu-budget-2021-recommendations-no-going-back/

169 Ibid.

170 Burke, Sara, et al.: *Sláintecare – A ten-year plan to achieve universal healthcare in Ireland*, Health Policy, 122/12, 2018, pp. 1278-1282. https://www.sciencedirect.com/science/article/pii/S0168851018301532

171 Baker, Noel: Simon Harris: *There can be no public versus private in hospitals' battle against COVID-19*, Irish Examiner, 24 March 2020. https://www.irishexaminer.com/news/arid-30989896.html

172 McCabe, Conor: *Hope or Austerity: A Road Map for a Better, Fairer Ireland After the Pandemic.* A report for Unite the Union. 6 May 2020, p. 5.

173 Central Bank of Ireland: *Quarterly Bulletin 04, 2020*. Oct 2020. https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2020/quarterly-bulletin---q4-2020.pdf?sfvrsn=7

174 Ibid

175 Ibid

176 Ibid

177 Ibid, page 37.

ing supports in 2021, to transform the EWSS into a "permanently established German and Nordic-style short-time work scheme".[178] The government made a €200 mio. investment in 2020 in job retraining and placement assistance. This has not involved the direct creation of jobs but rather has focused on skills development and retraining, placement schemes, recruitment subsidies for employers, and job search assistance. The investment includes the creation of 35,000 additional places in further and higher education.[179]

A major point of dispute between the government and the trade union movement regards workers' redundancies. The government imposed a ban on workers claiming redundancy status from their employer, while refusing to ban employers from making forced redundancies.[180] Under Irish employment law there is a legal difference between being 'laid off' and being made redundant. Prior to the COVID-19 pandemic, workers who were laid off by the employers for more than four weeks were legally entitled to claim statutory redundancy from their employer. The state provided a 60 per cent rebate to employers who made redundancy payouts, but this was abolished during the pandemic. During the first lockdown, the government imposed a ban on workers seeking statuary redundancy (and an associated redundancy payout) in order to prevent corporate insolvency. The trade union movement has called for a ban on forced redundancies.[181] The ICTU has described the situation in which workers cannot claim redundancy, but employers have the right to enact forced redundancies, as "anomalous and unfair", and stated that the safeguard was suspended "in a manner that has failed to maintain an appropriate balance between the interests of workers and employers".[182]

CONCLUSION

The COVID-19 pandemic developed during a year of profound political change in Ireland, starting with an historic general election in February. For the first time in the state's history, Sinn Féin topped the poll, winning 24.5 per cent of the first-preference vote (under the single-transferable vote system). The Green Party took seven per cent of the popular vote, with smaller left parties Labour, Social Democrats and Solidarity/People Before Profit taking a combined share of the vote of around 10 per cent. Fianna Fáil and Fine Gael – both parties of the centre-right that have alternately led every government for a century – polled 22.2 per cent and 20.9 per cent respectively.[183]

The leftward surge of the electorate was fuelled, in particular, by anger at the long-running housing and homelessness crisis; a shambolic, two-tier healthcare system; and a plan by the incumbent Fine Gael government to increase the retirement age from 66 to 67 years old.[184] All parties and the media described the general election as a "vote for change". However, in June, the Greens agreed a Programme for Government with Fianna Fáil and Fine Gael, putting both parties back into government.

The Greens secured agreement for making year-on-year emission reductions of seven per cent each year until 2030 – though the cuts will take place in the second half of the decade, after the end of this government term. More importantly, the program fails to outline exactly where these cuts will come from. It leaves the most polluting sections of the Irish economy entirely intact, with minimal reforms, if any – the cattle farming, aviation and road haulage sectors are practically untouched. The agreement does not include a firm commitment to ban the importation of fracked gas.[185]

178 ICTU: *Congress Budget 2021 Recommendations – No Going Back*, 2020, p. 4.

179 Department of Finance: *Taking Stock: The Fiscal Response to COVID-19*, Nov 2020.

180 Miley, Ingrid: *ICTU calls for moratorium on compulsory redundancies*, RTE news website. 29 May 2020. https://www.rte.ie/news/business/2020/0529/1143434-ictu-calls-for-moratorium-on-compulsory-redundancies/

181 Ibid

182 Ibid

183 *Results Hub – General Election 2020*, The Irish Times website, https://www.irishtimes.com/election2020/results-hub

184 Clancy, Emma: *Ireland's Fig Leaf'*, Tribune, 29 June 2020. https://tribunemag.co.uk/2020/06/irelands-fig-leaf

185 Department of the Taoiseach: *Programme for Government: Our Shared Future*. 29 Oct 2020.

The program for Government contained virtually nothing when it comes to the crises in housing costs, social housing and homelessness. The pandemic seems to have barely registered in the healthcare section of the program for Government, with health reforms (called Sláintecare) aimed at improving access, affordability and quality being postponed until 2022. There was nothing in the program either for workers' rights, with no commitment to enshrine statutory collective bargaining rights for all workers, nor enforceable access to workplaces for unions.[186]

The most important aspect of the agreement is its fiscal policy. The program commits to deepening Ireland's tax haven economic model, refuses to impose higher taxes on the wealthy, and commits to making year-on-year deficit reductions. The only new revenue will come from regressive consumption taxes including the carbon tax, and taxes on plastic and sugar.[187]

Against the backdrop of the COVID recession, this blanket commitment to reducing the deficit each year reflects the failed Fine Gael and EU austerity ideology that has caused so much pain in Ireland since the 2008 crash. In light of these challenges, neither the program for Government, nor any of the COVID-19 economic response program deal with the scope of the challenges facing working people in Ireland.

Mid-year, Ireland's GDP was projected to shrink 2.3 per cent in 2020, far less than the EU average of a 7.4 per cent contraction. This has since been revised down to a contraction of just 0.4 per cent of GDP. The European Commission estimates that Ireland would be one of only two EU economies to return to their pre-pandemic performance by the end of 2021.[188] The massive divergence between domestic demand and export performance is an indication of Ireland's ongoing status as a corporate tax haven and offshore financial center. The historic levels of unemployment demonstrate the fact that it is indigenous companies that provide the vast majority of jobs, as opposed to the less-affected FDI sector. While the level of government spending has been large, the overall impact is limited due to its neoliberal characteristics.

Ireland's public services, after a decade of harsh austerity, are in desperate need of investment. In health and education, the state has been singled out as underperforming on provision by the OECD and European Commission. At the tertiary education level, Ireland spends on average less than 60 per cent per pupil of its high-income EU counterparts.[189]

The key limitations of the government's fiscal response are:

- It completely fails to respond meaningfully to the need for a climate transformation of the Irish economy and agriculture sector;
- The government has missed the opportunity to impose high labour, social, environmental and governance standards on the recipient firms;
- The measures reinforce Ireland's harmful economic model of relying on the corporate tax receipts of multinationals rather than investing in indigenous firms and strategic sectors;
- The amount of direct capital investment in public services amounts to a small percentage of the overall spending;
- Similarly, there is very little investment to solve the long-running housing and homelessness crisis that Ireland has experienced in the wake of the global financial crisis and Troika bailout;
- Payments to landlords and banks were deferred but not reduced, and debts will need to be repaid in full emerging from the pandemic;
- There is no strategy for post-2021 spending; the only action that has been committed to is the withdrawal of supports, including the abolition of the EWSS.

With regard to a stable economic recovery, the most damaging economic policy is perhaps the failure to write down private household debt. There is no strategy whatsoever to deal with the private debt overhang that has accrued during this crisis. The government has refused to take the

186 Ibid

187 Ibid

188 Beesly, Arthur: *Ireland's COVID-hit economy boosted by multinational corporations*, Financial Times, 17 Nov 2020. https://www.ft.com/content/2a23d1a5-d8c4-448a-9782-6ccf3bb4d7b1

189 OECD: *Education spending (indicator) 2021*, https://data.oecd.org/eduresource/education-spending.htm

opportunity presented by massive public intervention in the economy to shape the future of that economy. At this stage, the government continues to appear committed to annual cuts to public spending to reduce the public debt to GDP ratio, without regard to the impact of this approach.

NOTE ON MODIFIED GROSS NATIONAL INCOME

Throughout this report, the measure of 'modified Gross National Income' (GNI*) is used instead of GDP. Official GDP figures have a major and serious role to play in fiscal planning, spending and borrowing. They need to be credible and a measurement of real economic activity. The infamous announcement in 2016 that Irish GDP had grown by more than 26 per cent in 2015 raised an enormous red flag, prompting economist Paul Krugman to coin the term "leprechaun economics".

In response, the Central Bank of Ireland published a study stating that to measure growth or activity without the reality being skewed by the activities of multinationals, GNI* should be used instead. GDP and Gross National Income differ as a result of the 'net factor income from abroad' (eg, repatriated profits and dividends of multinationals). While GDP is a measurement of the income generated by the economy, GNI measures the income actually available to its residents. Ireland's GDP is routinely more than 20 per cent greater than GNI, one of the largest differences among all economies globally (the two figures can usually be used interchangeably). Even using GNI is not sufficient to get an accurate picture of real economic activity according to the Irish Central Statistics Office, which developed a measure of modified Gross National Income, or GNI*. GNI* is Gross National Income "adjusted for retained earnings of re-domiciled firms and depreciation on foreign-owned domestic capital assets" – ie, modified to account for depreciation on intellectual property owned by technology and pharmaceutical firms.

France: Supply Side & Technology – Sovereignty for the Few

*By **Pauline Debanes**, Doctor in Economics from the EHESS (Paris, France). She has specialized in the financialization of growth regimes building upon post-Keynesian economics and the Regulation Theory. Her doctoral research focused on the economic development model of South Korea. She then expanded her research on the investment behaviour of firms from South Korea to France. She has since conducted impact analyses for the public and the private sector.*

The French government measures to support the economy have unfolded in three steps. The first step starts with the lockdown in March when the government announced urgency measures that amounted to €470bn of support for firms including €327bn as state guarantees, €49bn of support to firms and €8bn of health spending. The second step was launched in September 2020 with the National Recovery Plan called "France Relance" for 2021–2022 designed in the wake of the European Union's plan 'Next Generation EU'. The French Recovery Plan of €100bn includes €40bn from the EU.[190] The third step corresponds to the supplementary measures announced in October 2020 ushering new restrictions under COVID-19's second wave evaluated at €15bn per month of lockdown.

The paper focuses on the National Recovery Plan "France Relance" that builds upon the initial urgency measures but has a more sectoral focus and outlines the government vision for boosting the economy. It was announced on 3 September by the French government. It is branded as based on three pillars: ecology, competitiveness, and social and territorial cohesion. For each pillar, the government attempts to dedicate one-third of the €100bn Plan over the next two years. According to the French authorities, this state programme will lead to the creation of 160,000 jobs.

Since the COVID-19 outbreak, Macron's government has changed its stance on public deficit, at least temporarily. For almost three years, the French Finance minister Bruno Lemaire has insisted on a balanced budget, spinning the metaphor of the state as a head of household that should not spend more than its resources. In 2018, Emmanuel Macron was explaining that "there is no magic money" to justify the ongoing austerity measures in public services, especially the health sector, under his presidency. In contrast, thus, it was a policy turnaround when, announcing the first lockdown last March, the French President declared that the government would help the economy "whatever it costs". The amount spent for the Recovery Plan (€100bn) is three times larger than the one voted in the aftermath of the Lehman Brothers collapse in December 2008 (€26bn). However, the sequence of events that saw the Keynesian impulse turned into a cure of austerity, plunging southern EU into a double-dip recession, is getting closer every day. Indeed, the French minister of finance has already warned about the need for sustainable public finance past the crisis, without resorting to a tax increase.[191] In particular, the austerity-driven reforms of pension and unemployment, which have faced significant contestation and were put on hold last March, are back on the government table and seen as two key future steps to take for rebalancing public finance.

The main criticism of this Plan are as follows:

- First and foremost, the Recovery Plan, estimated at less than 5% of 2019 GDP, underestimates the actual needs of the French economy given the macroeconomic outlook. In addition, it will be phased out over two years with only 40% spent in 2021. The limited spending next year combined with supply-side measures prevent the economy from benefiting from large multipliers (see Figure 1 and Table 1). The OFCE, an independent public economic institute, estimates the average budget multiplier at 0.8 in 2021 and 0.7 in 2022.[192]
- Second, the Recovery Plan does not contain any checks and balances to monitor and control how the firms effectively use received financial support. As it was scorned last spring, firms benefiting from the partial unemployment scheme could pay out dividends at the

190 €40bn is funded through the 'Next Generation EU' Plan. https://www.touteleurope.eu/actualite/de-next-generation-eu-a-france-relance-quels-liens-entre-les-plans-de-relance-europeen-et-fran.html

191 Bruno Lemaire on La matinale, France Inter, 25/11/2020. The Banque de France's President, goes on repeatedly on the need to restore sound public finance in 2022.

192 OFCE, *policy brief*, 14 Oct 2020.

same time. Similarly, firms receiving subsidies or loan guarantees do not have any obligation to maintain employment.

- Third, the ecological content of the Plan is put into question as laureate projects are published. The Higher Council for Climate has estimated that €70bn of the expenses, if checks and balances are not implemented, could significantly lead to increased carbon emission.[193] As JM Jancovici, President of the environmental think-tank the shift project, underlines, relocation of industries should not mean more concrete and high-carbon intensity construction.[194]
- Fourth, the Recovery Plan might miss its targets. On the one hand, the large firms will benefit the most from it through the tax break that is proportional to value-added. Besides, large firms are eager to use partial employment scheme even if they are not affected by the lockdown. On the other hand, no coherent industrial strategy is outlined; it rather looks like sprinkles to French leading multinational corporations.

The first weeks of December have revealed the balance of power within the government regarding their arbitrage between economic and health concerns. While restrictive measures on public liberty were maintained, retailers and small shopkeepers have successfully negotiated their reopening despite a positive outlook on the management of the pandemic. However, the shutdown of cultural and tourism-related activities was maintained. The acceptability of the restrictions even by socio-economic groups close to E. Macron's neoliberal stance is dropping. Any new restrictions that could be needed by a post-holiday rebound will face strong opposition.

The gloomy economic outlook will not dampen the contestation from all sides of the political spectrum. On the left-wing sides, politicians and social movement leaders are denouncing the shortcomings of the government's economic strategy that pours money into the business sector without preventing massive job cuts. More than 35,000 job cuts have been announced since September. At the sectoral levels, manufacturers are hit the hardest (50%), followed by retailers (17%) and hotels and restaurants (13%).[195] Since the end of March, a total net loss of 700,000 jobs has been counted.[196] The large rise of unemployment seems unavoidable in 2021, which will put at risk the revenues of households. Despite the downwards pressure on labour, some of the CAC40 listed firms have already announced they will distribute dividends to their shareholders this year. On the right-wing side (including the presidential party), political leaders have expressed repeatedly their concerns over the sharp public debt increase. It has occupied most of the parliamentary debate preceding the vote on the finance act on 17 December. The main risk is therefore a worsening of the economic crisis with no political power to activate more public deficit spending nor impose further individual restrictions under the pandemic crisis umbrella.

DEMAND AND SUPPLY SIDE SUPPORT – WHERE IS THE MONEY BEING SPENT?

The French National Recovery Plan is divided into three pillars:

- The first pillar is called "Competitiveness and Innovation" (€35bn). Support will go to production tax breaks (€20bn) over two years, €1bn for industrial development, €3bn to support firms, and €11bn for long-term investment from an existing policy (*investissements d'avenir*).
- The second pillar, called "ecological transition" (€30bn), is divided into €11bn for low carbon mobilities, €7bn for energy-efficient building renovation, €9bn to accel-

193 The report published on 15 Dec estimates that €28bn of spending will have a positive impact on reducing carbon emissions (less than the €37bn required by the EU) but not the remaining €72bn. See Audrey Garric: *Climate: French recovery plan "insufficient" to bring about a long-term breakthrough*, Le Monde, 15 Dec 2020, https://www.lemonde.fr/planete/article/2020/12/15/climat-le-plan-de-relance-francais-insuffisant-pour-enclencher-une-rupture-a-long-terme_6063401_3244.html

194 *The map of France of the first 31 relocation projects of the recovery plan*, L'Usine Nouvelle, 19 Nov 2020. https://www.usinenouvelle.com/editorial/la-carte-de-france-des-31-premiers-projets-de-relocalisation-du-plan-de-relance.N1030559

195 Béatrice Madeline: *France hit by wave of layoffs*, Le Monde, 2 December 2020, https://www.lemonde.fr/economie/article/2020/12/02/la-france-frappee-par-la-vague-des-licenciements_6061854_3234.html

196 Sandrine Foulon: *The virus, an accelerator of restructuring*, Alternatives Economiques, 1 Dec 2020. 01/12/2020, https://www.alternatives-economiques.fr/virus-accelerateur-de-restructurations/00094568

erate firms' energy transition, and €3bn for improving biodiversity.
- The third pillar is called "Social and territorial cohesion" (€35bn). It is a compound of €14.1bn for employment training programmes, €6bn for hospitals, €3bn for university and scientific research, €9.5bn for territorial cohesion and €800 mill. for precarious households.

The financial resources for the Plan come from the French state (€46bn), the EU Rescue Scheme (€40bn), the Social security administration (€9bn) and the Public investment bank and regional public funds (€5bn).[197]

The Plan is supply-side oriented[198] with more than half of the resources channelled directly to private firms (€60bn over the €100bn of the Plan). In comparison, public procurement amounts to €25bn, and only 2% of the Plan is dedicated to household consumption (€1.96bn). Also on the demand side, a mere €14bn is devoted to labour subsidies and training with a preferred design of direct hiring subsidies for firms.

Moreover, the government is mainly extending urgency measures to support private firms forced to shut down under the lockdown or facing a drastic reduction of their activity, rather than designing a sustainable economic path with a clear industrial strategy.

The two waves of urgency measures (spring and autumn) have mainly consisted of pouring money into private firms through direct cash transfers and loan guarantees. Although the second lockdown is more permissive for firms, the government has provisioned €15bn per month for it. These funds are distributed as follows: €6bn for the solidarity fund, €7bn for partial employment, €1bn for social security tax exemptions and €1bn tax credit cover for business rents. Direct cash transfers have tremendously increased for the second lockdown from 1,500 up to €10,000 per month for all the firms with fewer than 50 employees (€1.6 mill. firms eligible).[199] Given the scope of the state support and the fast pace of payments to businesses (around a few days for small firms), a critical windfall effect is expected. Trade unions have already warned that there are not enough labour inspectors to prevent fraudulent behaviour.[200] Moreover, a downside could be that the large amount of public money drained into the business sector would artificially maintain unprofitable firms (the zombie firms).

ON THE SUPPLY SIDE

Tax breaks. This structural tax break combines the elimination of the regional share of the tax on value-added (CVAE) and the reduction of property taxes. This measure is presented as necessary to improve the national competitiveness of the industrial sector. However, energy producers, finance, and extractive industries will benefit the most from this measure at the expense of industrial production. The €20bn tax break will drain local government budgets that collect the production tax (and getting only €5.2bn in the Plan).

Direct support to firms' cashflow and balance sheet. The Plan provides direct support to firms through state guarantees on bank loans or subsidies for investment programmes. First, it secures firms' cashflow through state guarantees (€3bn). Second, the Plan subsidises investment for firms that decide to a) relocate their activities back to France (€1bn); b) engage in innovation (€11bn); or c) decrease their carbon footprint (€1.2bn). The Plan also provides funding for the development of "green technology and energy", which includes hydrogen technology (€2bn) as

197 Eléa Pommiers: *Why the French recovery plan will not really be 100 billion euros in 2021 and 2022*, Le Monde, 20 Oct 2020, https://www.lemonde.fr/les-decodeurs/article/2020/10/20/pourquoi-le-plan-de-relance-ne-sera-pas-vraiment-de-100-milliards-d-euros-en-2021-et-2022_6056745_4355770.html

198 In this article, C. Chavagneux estimates that 60% of the plan is supply-side oriented and 40% demand including employment and training plus public procurement. Nevertheless, given the employment and training policies are mostly designed as subsidies for firms and only €800 mill. goes to precarious households. https://www.alternatives-economiques.fr/impots-de-production-un-cadeau-de-20-milliards-aux-entreprises/00093954

199 https://www.economie.gouv.fr/bruno-le-maire-presente-mesures-urgence-economiques# (BrunoLe Maire presents emergency economic measures)

200 Gwenael Bourdon: *Fraudulent short-time work: "It's as if they were saying 'help yourself'"*, Le Parisien, 5 November 2020, https://www.leparisien.fr/seine-saint-denis-93/fraude-au-chomage-partiel-c-est-comme-si-on-disait-servez-vous-05-11-2020-8406836.php

well as the nuclear (€200 mill.), aeronautic and automotive (€2.6bn) and rail (€4.7bn) sectors.

ON THE DEMAND SIDE

Public procurements. The government estimates spending around €25bn on public infrastructure, with €4.5bn on energy renovation of public buildings and social housing, €1.1bn on the modernisation and greening and of transport infrastructure, €6bn for hospitals, €3bn for public research and universities, €1bn for public cultural institutions, €9.5bn for local governments and development, €832 mill. for military public procurement.

Employment and training policies. Measures regarding employment amount to €14.1bn in the Plan. The largest amount is dedicated to the partial activity scheme (€7.6bn). A set of measures is designed for youth employment and education (€6.7bn). They are intended mainly as incentives for firms to hire young people under 26 with important subsidies for vocational training and apprenticeships (€2.7bn) as well as recruitment subsidies (€2.7bn).

Support for households' consumption. Only three measures target households' consumption: government incentives to buy clean vehicles (€1.9bn), the increment of the back-to-school allowance by EUR 100 and setting the price of university lunch tickets at EUR 1 (€600 mill.).

a) there is no condition on the country of production for the clean car incentives.
b) there are no conditions for the supply-side policies mentioned above.[201] For the support plan last March, the government made the public aid conditional on the absence of dividends distributed to shareholders.[202] While there is a debate in the Parliament on introducing of employment, investment level or energy transition targets, to this day no decree has been voted. It is a dominant criticism against the Plan from heterodox economists, left-wing political parties, and workers unions.
c) No firms are excluded from the subsidy and aid scheme.

Are there any measures to support companies' need for liquidity? (e.G. through state guarantees on bank loans, etc.)

The BPI (French Public Investment Bank) is the coordinating agency of guarantee programmes and the various funds designed to strengthen firms' equity and cash flow.

Following the spring outbreak, the government has extended state guarantees on bank loans to 600,000 firms amounting to €120bn. The BPI has also launched a 'solidarity fund' dedicated to very small businesses. All the businesses of less than ten employees, in operation before 10 March 2020, with a turnover below €1 mill. last fiscal year and below €60K of taxable profits are eligible for a €1,500 tax-free aid. Under certain conditions, additional support of up to €5,000 can be provided. According to the Finance Ministry, in September, €1.7 mill. businesses have benefited from this fund, representing €5.8bn.

Adding up to the emergency funds disbursed in the spring, the Plan is dedicating €3bn (that could generate €10 to €20bn of equity for 10 to 20,000 SMEs and intermediate-sized enterprises) to strengthening firms' capital through state guarantees on bank loans (€2bn) and certified investment funds (€1bn).[203]

The first mechanism is granting equity loans (assimilable to quasi-equity) up to €20bn to SMEs and intermediate-sized

201 See the debate in the Parliament, Claire Gatinois: *In the Assembly, an emergency recovery plan – The government has agreed to ask for a minimum of compensation from companies*, Le Monde, 27 Oct 2020, https://www.lemonde.fr/politique/article/2020/10/27/a-l-assemblee-un-plan-de-relance-dans-l-urgence_6057515_823448.html

202 Véronique Chocron: *Government imposes partial dividend freeze for companies that received public support during the epidemic*, Le Monde, 28 March 2020, https://www.lemonde.fr/economie/article/2020/03/28/le-gouvernement-impose-le-blocage-partiel-des-dividendes-en-2020_6034759_3234.html

203 BPI France: *Recovery plan: €3 billion to strengthen companies' equity capital*, 9 Sept 2020, https://www.bpifrance.fr/A-la-une/Dossiers/Plan-de-Relance/Plan-de-relance-3-milliards-d-euros-pour-renforcer-les-fonds-propres-des-entreprises-50717

enterprises. These loans are subordinated to bank loans and will be distributed through commercial banks.[204]

Intending to channel rising savings towards firms' equity, the government has launched the label 'Relance' for investment funds dedicated to equity funding for listed and non-listed firms in 2020, 2021 and 2022. The label will be based on environmental, social, and good governance criteria defined and monitored by the French Treasury. The labelled funds will be eligible for a state equity guarantee up to €1bn.[205]

How much do the plans speak about a shift to a sustainable economy? Which measures will be taken to lower CO_2 emissions and generally to protect the environment?

One pillar of the Plan is dedicated to the 'ecological transition', although the other two pillars are oriented towards the same 'strategic objective' of a shift towards a sustainable economy according to the press release of the government. However, no ex-ante environmental evaluation of the Plan has been conducted.

The 'ecological transition' pillar amounts to €30bn and covers many areas. Indeed, it goes from building renovation, low-carbon emissions incentives, the transformation of the agricultural sector to green mobilities, green technologies and green finance. The overall approach revolves around technology: most of the funding is going to technology development for reducing carbon emissions rather than investing in existing clean energy industries (such as wind and solar).

Moreover, some of the measures for the transition of the agricultural sector are fuzzy on their ecological orientation. For instance, €250 mill. is dedicated to optimising chemical and fertiliser usage.[206]

Lowering CO_2 emissions:

- Energy: The Plan only mentions measures towards the nuclear sector (€200 mill.) and the development of the hydrogen industry (€2bn). The emphasis put on green hydrogen stands more as a gift to the national flagship firm Air liquid, and successful lobbying from the gas industry,[207] than an enlightened strategical choice for France's energy transition.
- Mobility: the rail, aeronautic and automotive sectors are given a significant amount of money. Although the rail sector gets a substantial amount of money (€4.7bn), this support was in part decided following the unprecedented strike last year of the rail sector against the pension reform to cover the enormous debt of the public rail operator (SNCF). The SNCF Group has engaged in reducing its carbon emission up to 30% by 2030 and improving its business model efficiency.[208]
- Decreasing carbon intensity of the industry (€1.2bn) by subsidising investment in low carbon industrial process and balancing out the overhead costs of decarbonated energy.
- Energy-efficient building renovation (€7bn) that covers buildings of the public sector, social housing, private sector housing and business buildings. The size of the budget is close to the environmental think tank I4CE of €9bn needed. However, concerns are rising on the monitoring on the renovations and the potential moral hazard of constructors[209].

204 Code monétaire et financier : Paragraphe 2 : Prêts participatifs. (Articles L313-13 à L313-20) https://www.legifrance.gouv.fr/codes/id/LEGIARTI000006652112/2001-04-21/#:~:text=Article%20L313%2D14,assimil%C3%A9s%20%C3%A0%20des%20fonds%20propres.

205 Ministry of Economy and Finance, Dossier for the Press: *Mobilising investors and savers for a rapid and sustainable recovery of the French economy*, 19 Oct 2020, https://minefi.hosting.augure.com/Augure_Minefi/r/ContenuEnLigne/Download?id=3B01632A-100E-4773-99D7-C95C6A711FF9&filename=302%20-%20Dossier%20de%20presse%20-%20Feuille%20de%20route%20de%20la%20Place.pdf

206 Reseau Action Climate: *Pale Green Recovery Plan*, 18 Sept 2020, https://reseauactionclimat.org/un-plan-de-relance-vert-pale/

207 Hans Van Schaaren: *Massive public support will continue to finance fossil gas… via hydrogen!*, Le Monde, 17 Dec 2020, https://www.lemonde.fr/idees/article/2020/12/17/un-soutien-public-massif-va-continuer-de-financer-le-gaz-fossile-via-l-hydrogene_6063678_3232.html

208 https://www.economie.gouv.fr/plan-de-relance/aides-ferroviaire-sncf (Unprecedented investment in railways)

209 Antoine de Ravignan: *Decrypting, The ecological contradictions of the recovery plan*, Alternatives Economiques, 4 Sept 2020, 04/09/2020, https://www.alternatives-economiques.fr/contradictions-ecologiques-plan-de-relance/00093780

Environmental protection: In the panel of measures within the ecological pillar, only a few are dedicated to environmental protection per se. €300 mill. will go to protecting the biodiversity and 200 mill. to the forests. On the latter, the government announced its aim to plant 45,000 hectares of forest by increasing the areas planted, regenerating existing areas and restoring those that have declined[210]. If the budget is sizeable, environmental organisations regret that no environmental strategy or conditions are imposed, nor the interdiction of forest clearcutting.

Horizontal vs. sectoral approach?

he Recovery Plan targets two strategic sectors: aeronautic and automotive, €2.6bn will be channelled directly to these industries in addition to indirect measures for the car industry with €1.9bn incentives to buy clean vehicles and the greening of the state's vehicle fleet (€180 mill.).

These two sectors have already received massive support since March with around €23bn (15bn for the aircraft industry and €8bn for the car industry). In particular, the state, owner of 14.3% of Air France capital, provided €7bn to the company though guaranteeing €4bn of bank loans and €3bn.[211] Three soft conditionalities were attached to this loan: decreasing by 50% the carbon emissions of domestic flights; deploying sustainable biofuel and renewing its fleet.[212] Similarly, Renault, one of the leading French carmakers, received €5bn.[213] One requirement for Renault was to join Total and PSA in the "consortium for electric batteries".

While these companies are facing decreasing demand, these state-backed loans are mainly dedicated to solving their cash flow problem with a general indication by the government to improve their environmental impact as well as some symbolic measures. The government has also repeated many times its effort to protect national jobs. However, in July Air France announced 7,580 job cuts; on 19 November, Renault announced 2,500 jobs cut.

Other sectors are targeted, such as the Agricultural sector (€1bn) with general measures to modernise equipment and machinery. As mentioned, the rail sector gets a substantial amount (€4.7bn) to renovate the most used train lines, support small lines, and reopen night trains. However, it is considerably undersized given the €40bn debt of the public operator before the COVID crisis.[214]

The Plan is mostly horizontal with already €20bn in tax breaks and €11bn in investment funds. See section 3. on the production tax break. A large share of the investment support goes through a €20bn innovation fund with €11bn as part of the Plan and to be spent by 2022 (Programme d'Investissement d'avenir PIA4[215]). This investment programme is loosely targeted with four components: the development of green innovations and technologies (€3.4bn); economic resilience and sovereignty (€2.6bn); supporting higher education, research and innovation ecosystems (€2.55bn); supporting innovative companies at every stage of their development (€1.95bn).

PROTECT NATIONAL FIRMS FROM FOREIGN TAKEOVER?

The Plan does not mention measures on protecting national firms explicitly. However, some existing rules were

210 Perrine Mouterde: *200 million for forests in the recovery plan*, Le Monde, 8 Sept 2020, https://www.lemonde.fr/planete/article/2020/09/08/dans-le-plan-de-relance-200-millions-d-euros-pour-les-forets_6051402_3244.html

211 European Commission, Press Release: *State aid – Commission approves French plans to provide €7 billion in urgent liquidity support to Air France*, 4 May 2020, https://ec.europa.eu/commission/presscorner/detail/fr/ip_20_796

212 The first measure includes eliminating domestic lines with a flying time of under 2.5hrs. It is one of the key recommendations made by the Citizens' Climate Convention, President Macron has committed to enforcing this measure but no deadline is set for now.

213 European Commission: *State aid – Commission approves €5 billion loan guarantee granted by France to Renault group*, 30 April 2020, https://ec.europa.eu/france/news/20200430/autorisation_garantie_renault_fr

214 Vincent Grimault: *Transport, a green but faded recovery plan*, Alternatives Economiques, 7 Sept 2020, https://www.alternatives-economiques.fr/transports-un-plan-de-relance-vert-defraichi/00093787

215 General Secretariat for Investment: *4th Future Investment Programme: €20 billion for innovation, more than half of which will be used for economic recovery*, 11 Sept 2020, https://www.gouvernement.fr/4eme-programme-d-investissements-d-avenir-20-milliards-d-euros-pour-l-innovation-dont-plus-de-la

amended in order to protect national firms, listed and not listed, from foreign takeovers. Bruno Lemaire announced on 29 April an adjustment of the procedure for the control of foreign investments in France by adding biotechnologies to the list of controlled sectors and by temporarily reducing the threshold for initiating this procedure (it is set at 10% until December 2021 instead of 25%).[216]

Moreover, the BPI announced the launched in January 2020 of the new investment fund "Lac 1" designed to secure long term investment in French listed firms. This fund has raised €4.2bn from private investors (including €1bn from Mubadala, the Emirates sovereign wealth fund) last March. A first investment was finalised at the beginning of November with the acquisition of 5.08% of the Arkema chemicals group's equity.[217]

PUBLIC OWNERSHIP IN FIRMS – ACTIVE VS PASSIVE STATE

The government has so far refused to take ownership of distressed firms despite ambiguous declarations by Bruno Lemaire, the Finance Minister. The €20bn equity loans announced in the Plan are in-between a state guarantee on bank loans and share ownership but without any voting rights, which looks more like an increasing credit risk for the state (those loans are reimbursed last) than a strategy of an active state.

To support strategic firms with public ownership, the government has supported bond issuances (see Figure 3). For instance, the state has allocated €114 mill. to Safran – national flagship firm in aeronautic, space and defence, bond issuances since May 2020.[218] Similarly, the state has allocated €960 mill. to the public-owned energy operator EDF bond issuance.[219] Far from securing the state equities in the energy sector, the government is pursuing EDF's privatisation at slashed prices with decrees published in December.[220]

WORKERS AND TRADE UNIONS

a) The Recovery Plan includes three axes on the labour side (€15bn):
   - Long-term partial employment scheme (Activité partielle de longue durée): recently extended until summer 2021, this scheme provides financial support to workers falling into partial employment up to 70% (until the end of 2020, it could decrease to 60% afterwards) of its gross salary for up to 24 months.[221] €7.6bn was provisioned for it in the Plan; this amount will increase with the autumn lockdown.
   - For the youth (€6.75bn): the 1 young person, 1 solution (1 jeune, 1 solution) programme consists in a €4,000 bonus for firms hiring young people on permanent or fixed-term contracts of more than three months, aid for hiring for apprenticeships or professional training contracts (from €5,000 to €8,000 depending on age). The government will also finance 223,000 training spots for unemployed young people. 300,000 young persons far from employment will benefit from a dedicated insertion track.[222]

216 The reform of the procedure for the control of foreign investments was part of the "PACTE" law and was enacted in January 2020, following the EU Foreign Direct Investment Screening Regulation. See https://www.tresor.economie.gouv.fr/Articles/2020/04/30/COVID-19-adaptation-du-controle-des-investissements-etrangers-en-france-ief-pendant-la-crise-sanitaire

217 AFP: *First investment of the large support fund for French groups, which takes 5% of Arkema*, La Tribune, 3 Nov 2020, https://www.latribune.fr/entreprises-finance/banques-finance/premier-investissement-du-grand-fonds-de-soutien-aux-groupes-francais-qui-prend-5-d-arkema-861384.html

218 https://www.economie.gouv.fr/files/files/directions_services/agence-participations-etat/Documents/Communiques/20201007%20Communiqu%C3%A9%20de%20Presse%20-%20Oceane%20Safran.pdf

219 Ministry of Economy and Finance, Press Statement: *The Agence des participations de l'État (APE) announces its subscription to the inaugural issue of green bonds convertible into EDF shares*, 8. Sept 2020, https://www.economie.gouv.fr/files/files/directions_services/agence-participations-etat/Documents/Communiques/2020.09.08%20CP%20-%20Oceane%20EDF.pdf

220 https://www.mediapart.fr/journal/economie/111220/privatisation-black-friday-bercy

221 https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000042169955/

222 https://www.economie.gouv.fr/entreprises/aide-embauche-jeune-plan-de-relance

- Increasing and adapting skills of the workforce (€900 mill.): more than 200,000 fully sponsored training sessions will be provided.

Many measures budgeted in the Plan are part of the urgency package adopted after the spring COVID-19 outbreak. For instance, the partial employment scheme is included in the Plan, €6.7bn where earmarked for 2021 in the September version.

Trade unions denounced the lack of job guarantees in the Plan, for instance, in the youth measures, employers are eligible for hire subsidies even under a fixed-term contract.[223]

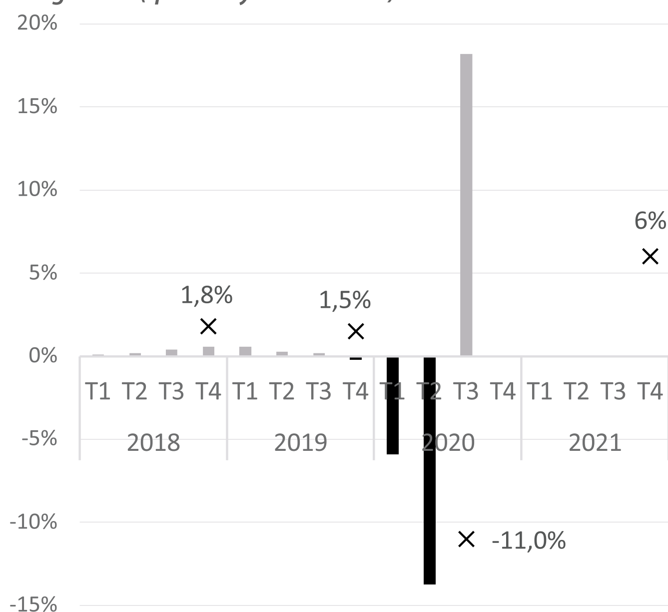
b) The Recovery Plan does not create any public jobs.

c) Trade unions have not played a role in the designing of the Plan (see Figure 2). They are supposed to be integrated to the monitoring of the Recovery Plan through the creation of the National Committee of the Recovery Monitoring (Comité national de suivi de la relance) under the leadership of the Prime Minister. During the first meeting on 5 October, all trade unions demanded more constraints for firms resorting to the partial employment scheme.[224] Trade unions formalised their claims in a joint press release on 14 October asking for 1/ introduce obligations for company recipients of the Recovery Plan; 2/ Urgent wage negotiations for essential workers (cashiers, truckers, garbage collectors); 3/ backtracking on the unemployment insurance reform; 4/ reopening talks on the pension reform.[225]

The government has urged trade unions and employers' organisations to negotiate a national agreement on remote working in the context of the COVID-19 crisis. Currently, remote working relates to a 2005, completely outdated, agreement. Under the lobbying of employers' organisations, the government has refused to edict a law. Instead, it has relied on health protocol to call for remote working when possible without hard commitments (companies can be sued for failure to comply). Employers' organisations have opposed collective binding agreements to prefer non-binding charters or one-to-one agreements. Conservative trade unions (CFE-CGC, CFDT, CFTC) have accepted the propositions. In contrast, critical trade unions have put as a prerequisite that remote working results from collective negotiation and materialises as an amendment to the labour contract. It is feared that employers will take advantage of remote working to deregulate even more labour contracts and challenge the right of employees to enjoy 11hrs of consecutive rest. Moreover, trade unions were urging employers to participate in work-related expenses. Still, the draft of the agreement relegates the issue to intra-firm talks.

ANNEXES

***Table 1**: Macroeconomic dashboard*
PIB growth (quarterly and annual)



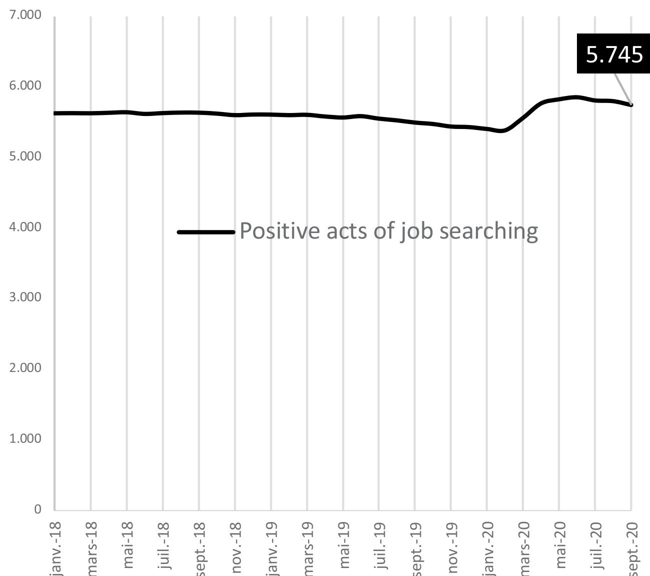
Source: INSEE, forecast by the government. Annual values are represented by cross markers with government forecasts for 2020 and 2021

223 https://www.lefigaro.fr/social/plan-de-relance-les-syndicats-reclament-des-contreparties-aux-entreprises-20200903

224 https://www.cfdt.fr/portail/actualites/emploi-/-formation/premier-comite-de-suivi-du-plan-de-relance-srv2_1137338

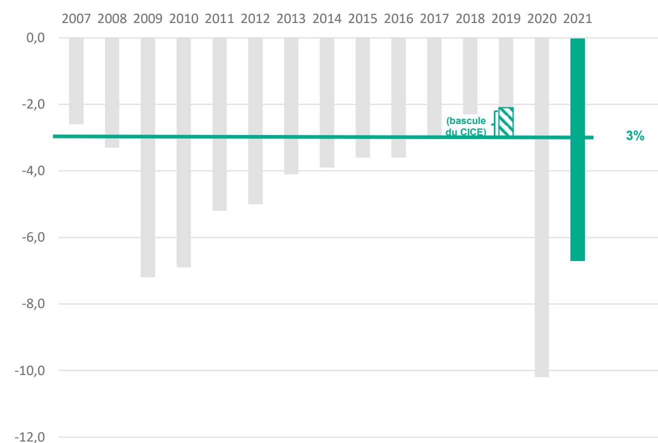
225 Desmoulières, R.: Unions set out their demands in a letter to the government, Le Monde, 14. Oct 2020, https://www.lemonde.fr/politique/article/2020/10/14/face-a-la-crise-les-syndicats-dictent-leurs-exigences-dans-une-lettre-au-gouvernement_6055993_823448.html

Public deficit



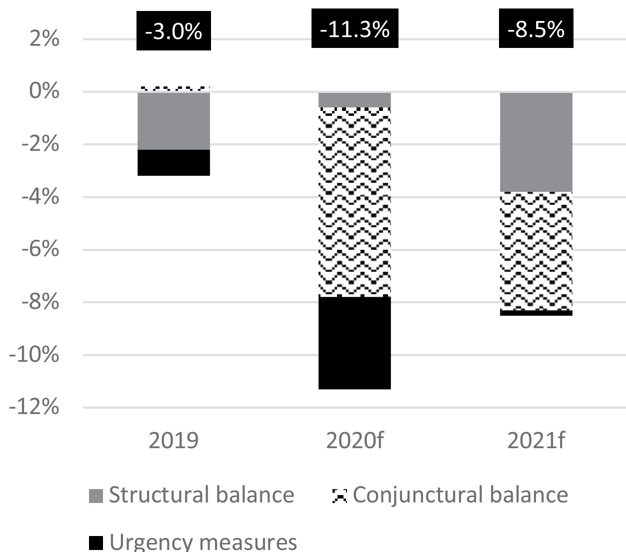
Source: PLF2021, 12/17/2020. Forecast by the ministry of Finance for 2020 and 2021.

Figure 1 *Evolution of public deficit (Source: Ministry of Finance, PLF 2021)*



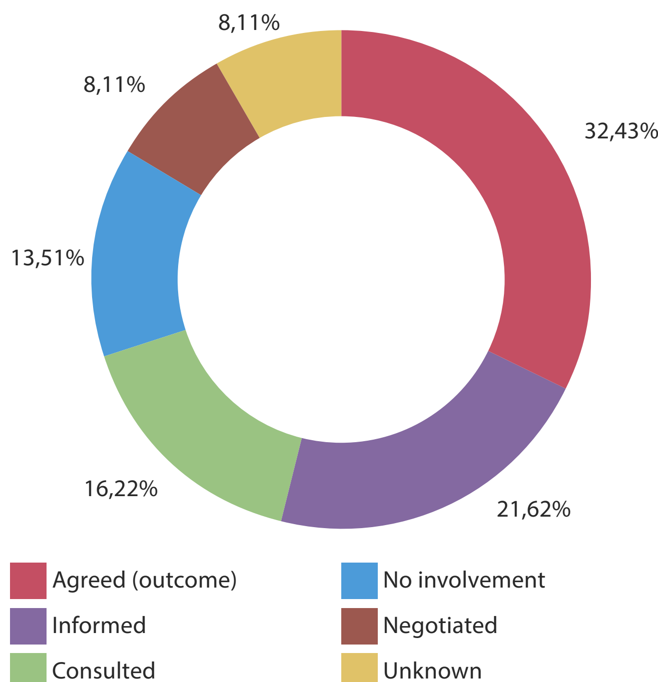
Source: https://minefi.hosting.augure.com/Augure_Minefi/r/ContenuEnLigne/Download?id=0638C996-A2C6-48E5-86FB-A53A22A780F1&filename=DP%20-%20PLF%202021.pdf

Monthly active job seekers *(thousands)*



Source: DARES

Figure 2 *Role of trade unions*



Source: https://www.eurofound.europa.eu/data/COVID-19-eu-policywatch/database

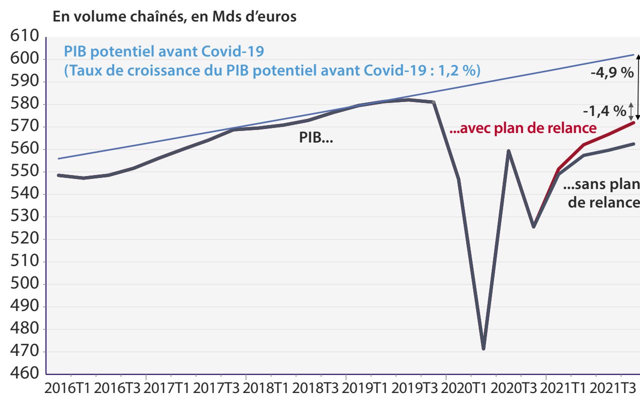
Figure 3 Listed firms with state ownership

PARTICIPATIONS COTEES
10-mars-2021

	Cours (€) au 10-mars-21	Performance quotidienne (%)	Capitalisation boursière (M€)	% de participation de l'Etat	Valeur de la participation de l'Etat (M€)	Performance (%)						
						1 semaine	1 mois	3 mois	6 mois	2021 YTD	1 an	FY 2020
Portefeuille coté APE	-	(0,26%)	-	-	64 364	+0,97%	(1,09%)	(8,24%)	+20,35%	(8,80%)	(1,37%)	(5,07%)
CAC 40	5 990,55	+1,11%	-	-	-	+2,75%	+5,64%	+7,94%	+19,24%	+7,91%	+29,20%	(7,14%)
Participations												
ADP	104,30	(0,19%)	10 322	50,63%	5 226	(1,42%)	+2,46%	(0,67%)	+18,19%	(1,70%)	(14,23%)	(39,75%)
Airbus	98,99	(1,27%)	77 623	10,95%	8 497	(1,46%)	+7,96%	+5,62%	+42,55%	+10,26%	+10,46%	(31,19%)
Air France - KLM	5,17	(1,64%)	2 217	14,29%	317	(7,28%)	+5,96%	+1,57%	+39,11%	+1,02%	+1,85%	(48,41%)
EDF	9,89	(0,60%)	30 658 *dont F2i*	83,68% *10,59%*	25 654 *3 247*	+0,86%	(6,79%)	(20,88%)	+17,74%	(23,30%)	(8,72%)	+29,89%
Engie	11,97	+0,76%	29 150	23,64%	6 891	+3,77%	(8,77%)	(3,43%)	+1,23%	(4,39%)	(7,99%)	(13,06%)
Eramet	55,20	(3,66%)	1 470	25,57%	376	(13,37%)	+6,32%	+37,72%	+106,43%	+28,61%	+109,65%	(6,37%)
FDJ	38,27	(0,73%)	7 310	21,91%	1 602	(2,00%)	+4,14%	+6,99%	+23,05%	+2,30%	+52,35%	+57,02%
Orange	10,20	+2,84%	27 133	13,39%	3 633	+6,01%	+3,32%	(1,21%)	+7,28%	+4,79%	(5,95%)	(25,81%)
Renault	41,09	+0,60%	12 150	15,01%	1 824	+4,36%	+4,65%	+13,01%	+65,00%	+14,89%	+103,19%	(15,22%)
Safran	121,05	(1,75%)	51 717	11,23%	5 808	+2,07%	+9,20%	+2,20%	+24,69%	+4,40%	+14,58%	(15,76%)
Thales	82,80	+1,79%	17 667 *dont F2i*	25,68% *25,68%*	4 537 *4 537*	+1,45%	+6,56%	+7,39%	+24,55%	+10,55%	+0,66%	(19,04%)

Source: https://www.economie.gouv.fr/agence-participations-etat/Les-participations-publiques

Figure 4 GDP forecast with and without the Recovery Plan



Source: Insee, prévisions OFCE.

Germany: Money as a Substitute for a Plan

*By **Michael Schwan**, postdoctoral researcher in international and comparative political economy at the University of Cologne. With a research focus on financial markets, corporate governance and growth models, some of his current projects analyse the role of state-owned enterprises for public investments in Europe and alternative banks for socially-inclusive economic development in the United States.*

THE FRAGILE RECOVERY OF THE GERMAN ECONOMY: SHORT-TERM PROSPECTS, LONG-TERM CHALLENGES

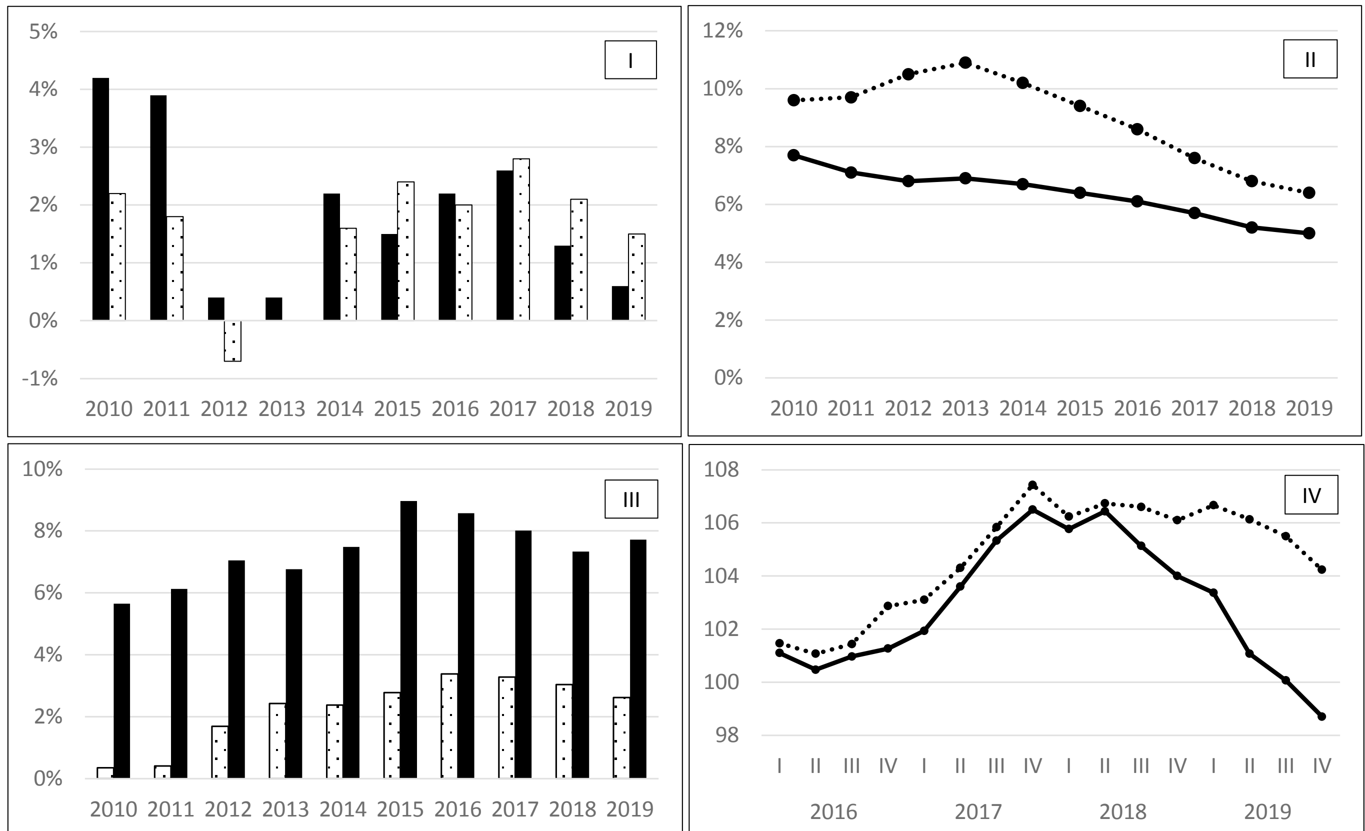
Introduction: the German political economy before the pandemic

Germany recorded its first COVID-19 case on 27 January 2020. Although federal authorities initially downplayed the risk of further transmission, the number of daily infections kept rising. They reached a preliminary peak on 28 March, with 6,294 new cases, nearly one week after the country had entered its first lockdown. Prior to the outbreak of the pandemic, the German economy had entered the year in a position of continuing relative strength compared to other EU member states. **Figure 1** illustrates this for a set of select economic indicators. Throughout the last decade German annual GDP growth mostly outperformed aggregate EU numbers, especially in the immediate aftermath of the global financial crisis. Even at the height of the Eurozone crisis, the country's economy continued to grow while the EU at large either shrank or stalled. However, in the last three years, signs of a partial reversal in growth trends have come to the fore with Germany underperforming EU-wide developments. In 2019, for example, Germany recorded a meagre 0.6% GDP growth, while the EU at large grew by 1.5%. Similar tendencies can be observed with regards to unemployment rates where the gap between the EU and Germany has significantly decreased in the last five years. Despite entering a cyclical slowdown, Germany continues to dominate in terms of its current account balance with constant surpluses around 8% of its GDP as opposed to an average of roughly 3% in the EU at large.

One of the main drivers of both the export-led strength and the gradual moderation of the German economy is industrial production (FAZ 2020d), which has been decreasing sharply since the second half of 2018 (**Figure 1**-IV). In contrast, household consumption and public investments eventually stabilized domestic demand and countervailed slackening business investments, most notably in the manufacturing sector. This was further supported by benign credit conditions, ample fiscal leeway and a financial system that is still stable in the face of warning signs concerning a potential real estate bubble. Nonetheless, the general perspective of the German capitalist growth model was further troubled by the threat of international trade disputes and rising costs to combat climate change and comply with environmental regulations; three fears regularly uttered by the country's economic elite (Manager Magazin 2019; FR 2020). Overall, even before the pandemic, the outlook for the German economy had become much cloudier and less optimistic, in spite of its robust development (SVR 2019).

The remainder of this study has a closer look at the policies enacted and measures taken by German political authorities to combat the economic perils caused by the COVID-19 pandemic. The next section discusses different measures in the light of their respective demand-side or supply-side focus. Following this, section three provides more details on liquidity provision for the corporate sector and the recapitalization of certain industries. The penultimate section four reflects on what all this means for a necessary transition towards a Green Economy that is more balanced and socially inclusive. For this, a special focus is also put on the role of trade unions in this process. The final section concludes and briefly sheds light on the immediate challenges ahead.

Figure 1. *Economic indicators for Germany (dark) and the EU (light) before the Coronavirus crisis: GDP growth (I), unemployment rate (II), current account balance in % of GDP (III), quarterly industrial production index (2015 = 100) (IV).*



Sources: Destatis (2020) and Eurostat (2020)

PULLING OUT THE BAZOOKA. CONTOURS AND CONTENT OF GERMANY'S ECONOMIC RELIEF PACKAGE

Resulting from the aforementioned position of relative dominance, the German government has been able to swiftly set up numerous support programmes of unprecedented size and scope. Already without the additional measures announced in November 2020, direct and indirect support programmes added up to an enormous almost 40% of GDP. In the EU, only Italy comes close to that size, albeit with only 4% of GDP as effective emergency spending – that is, money to be spent excluding loans and guarantees – compared to 8% in Germany. In general, the German relief package dwarfs the rest of the European economies with a relative volume roughly twice as much as its counterparts in France or Spain and quadruple the size of the Austrian, Swedish, Portuguese or Dutch programmes, which all amount to circa 10% of GDP (SVR 2020). Independent from specific targets, the sheer size of the package indicates the willingness of the German government – still run by a coalition of Christian-democrat conservatives (CDU) and centre-left social-democrats (SPD) under the auspices of Angela Merkel (CDU) in her fifteenth year as Chancellor – to combat the economic fallout of the pandemic. During a press conference in March 2020, Finance Minister Olaf Scholz (SPD) thus made no secret of this ambition as he metaphorically referred to the rescue package as "the bazooka" to which further "small-calibre guns" could be added later if need be (SPIEGEL 2020). According to the Federal Ministry of Finance, together, all the different rescue and support measures amount to a total of more than €353 billion, with another €830 billion in guarantees. For this, the federal government – via two budget amendments, one in spring and another one in June 2020 – increased total spending from €362 billion to €509.3 bil-

lion and took on additional debt of €218.5 billion, or 6.7% of the country's predicted 2020 GDP (BMF 2020f).

In economic terms, the pandemic-induced crisis has both demand-side and supply-side effects. While lockdowns and shutdowns – especially in spring 2020 – dramatically reduced production and investments, the emergency measures to contain the spread of the virus and prevent infections also affected private consumption through income losses and temporary business closures. Consequently, economic and fiscal aid programmes had to tackle both channels while also acknowledging that traditional stimulus measures were widely deemed counterproductive as the explicit aim was to slow down economic activity (SVR 2020). In the German case, the entire attempt to mitigate the economic and social consequences of the COVID-19 pandemic resembles a complex patchwork of several dozen individual measures. Since it is neither possible nor desirable to discuss all of them in detail, the following paragraphs concentrate on the most important ones to stylize the general direction and contours of the economic rescue programme.

MEASURES TO SUPPORT CONSUMPTION

For Germany, one of the most important measures to support the demand side has been the *Kurzarbeitergeld* (KuG), a job retention scheme that functions as an automatic stabilizer and has already proven to be effective in the aftermath of the global financial crisis. The main goal of KuG is to prevent layoffs while securing household consumption. If a company meets certain (loosened) criteria, it can apply for KuG at the Federal Employment Agency (BA). In this case the BA refunds much of the company's social security contributions and compensates for parts of the employees' shortfall in earnings for up to 24 months (BMF 2020e). As a complementary (supply-side) effect the KuG also enables firms to keep employees on their payroll and thus potentially allows for a quick restart once Coronavirus restrictions are eased. In practice, this means for instance that, if an employee only works 10% of the normal hours, e.g. 4hrs per week, she keeps up to 85% of her normal monthly net pay, depending on how long she has already been in the job retention scheme and whether she has children. This is in fact more generous than regular unemployment benefits and might sound like a worker's dream, yet smoothing out the crisis, of course, comes with a hefty price tag. Recently, the Federal Employment Agency announced that the expected costs for KuG in 2020 add up to €20 billion (RND 2020), further depleting its reserves. One can anticipate that the Agency's financial situation will be at the centre of a heated debate on who is going to carry the financial burden of the pandemic. So far, however, the KuG scheme has proven to be quite effective. Whereas in the wake of the 2009 financial crisis the BA registered nearly 3.3 mio. KuG applications over the course of the entire year, numbers for the three-month period of March-May 2020 already show 11.7 mio. applications. During the KuG height of the financial crisis in May 2009, 1.1 mio. worked on average 26% less, while in April 2020 circa 6 mio. employees worked on average 50% less (SVG 2020). These numbers illustrate the severity and importance of this job retention scheme for the German labour market.

A second measure to stabilize consumption and thus support the demand side is a bonus for families or single parents in the form of a one-off payment of €300 per child, disbursed in autumn 2020. This comes on top of the general monthly child allowances that are part of the German welfare system, which range from €204 to €235 for each child under the age of 18 (BMFSFJ 2020). The official purpose of the bonus is to make up for higher childcare and education efforts caused by the spring lockdown, during which schools and day-care facilities largely remained closed. Its distributional effects were much more favourable than those of another (disputed) measure, which is the temporary VAT reduction. In July, the Federal Ministry of Finance announced that, for the rest of the year, sales tax rates would be reduced from 19% to 16% and from 7% to 5% respectively (BMF 2020d). Being that value-added taxes are among the most regressive taxes, – they disproportionately negatively hit medium- and lower-income earners – their reduction is generally welcome from a progressive standpoint. Yet, this very design and context of this measure seems to have largely missed the point. Not only has it been comparatively costly with up to €20 billion in foregone public revenue (Tagesspiegel 2020). Its stimulating effect has been almost negligible. Nearly all consumers (90%) state that they have not changed their consumption behaviour, specifically not by purchasing pricier, durable goods, with a slightly lesser effect (75%) in higher net income brackets (e.g. those earning €3,000-€3,999 per month) (SVR 2020).

The final measures discussed in this section target specific groups and help securing or providing income. To begin with, easier access to basic security benefits (ALG II) mainly aims at guaranteeing minimum benefits to the self-employed who otherwise might not be eligible in the short run. For this, the normally mandatory and usually degrading means tests are temporarily suspended until 31 March 2021 (BMAS 2020). Nevertheless, it is important to note that ALG II (commonly referred to as *Hartz IV*) provides only minimal security and, despite some (rather minor) adjustments over the years, still has a lopsided supply-side focus based on neoliberal labour market recipes and activation policies. Because of this, it has been criticized by progressive actors, welfare associations and trade unions alike since entering into force under the second Schröder government in 2005. In general, single ALG II recipients receive a monthly support amount of €432 plus rent and cost of heating (KdU). The current measure of easier access mainly targets self-employed artists, teachers, lecturers and many other jobs or professions with a strong reliance on the events industry. Still, it rarely covers their real costs of living and thus puts them at risk of even further precarisation. Secondly, a temporary tax reform allows employers to pay their workers a one-time, tax-exempt bonus of up to €1,500. Given the dire straits of many companies during the lockdown, it is yet unclear how many employees actually benefit from this opportunity. However, in September 2020 the associations of public health insurance providers and hospitals have announced that nurses in their facilities will receive such a bonus (BMG 2020), although those working in private sector hospitals and retirement homes remain excluded. Therefore, the federal government has agreed on an additional €100 mio. for further bonus payments ranging from €150-€500 per employee and whose disbursement depends very often on local and regional arrangements between unions and facility ownership. Third and finally, the *Novemberhilfe* (November Aid) and the *Neustarthilfe* (Re-Start Aid) are two separate but connected programmes that specifically aim at self-employed individuals who, during the first rounds of business support measures, were often ineligible for financial support. Starting in late November, self-employed individuals can apply for two lump sum payments, one equalling 75% of their regular weekly turnover in November 2019 for every week they are not allowed to perform their jobs due to lockdown-related venue closures and event cancelations, and another one of up to €5,000 to re-start their business (BMF 2020c). Importantly, and in contrast to previous measures, money from these two programmes can also be used to cover regular costs of living and not only operating expenses.

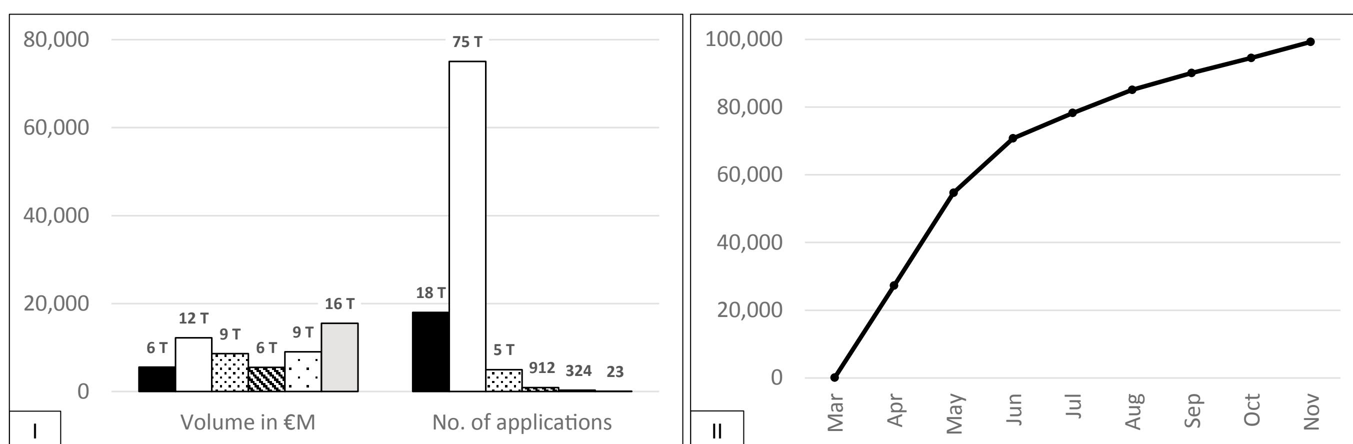
MEASURES TO PROVIDE LIQUIDITY

While measures to support consumption clearly aim at stabilizing the demand side of economic activity, those with a supply-side orientation focus on stimulating corporate investments. In addition to regulatory policies, skill formation or research and development, securing capital availability lies at the centre of this economic policy doctrine. To achieve this, the German coronavirus relief packages contain several individual measures whose ultimate goal is to provide firms with enough liquidity to first prevent mass layoffs and bankruptcies and, furthermore, to enable new investments once the immediate impact of lockdown constraints are over. Thereby, we can differentiate between direct and indirect forms of liquidity provision. For the latter, the German government has implemented a number of temporary reforms in the corporate tax code. Supplementary to the flexibilization of up-front tax payments and the suspension of outstanding ones, the most important measure applies to both corporate and income tax payments and allows for deducting losses that accrue in the tax year 2020 from either previous or upcoming tax obligations. Especially for small businesses and the self-employed – who usually only pay income but no corporate tax – this can offer a further income stimulus, whereas its benefit for larger companies lies more in additional liquidity provision (SVR 2020). Furthermore, the unlimited expansion of state guarantees to underpin existing credit arrangements between companies and their *Hausbank* (i.e. a firm's main bank within the German model of relationship lending), represents another key component of indirect liquidity provision. In these cases, the federal government absorbs up to 90% of the remaining credit risk in a given arrangement and thus helps both maintaining the lender-borrower relationship between a bank and a firm, as well as preventing bank failures caused by credit defaults.

Direct liquidity provision, instead, can take the form of loans or equity infusion. Concerning new credit engagement in the form of corporate loans, Germany uses its major public development bank, the *Kreditanstalt für Wiederaufbau* (KfW). Founded in 1948 to serve post-war recon-

struction, the KfW is the largest state-owned development bank in the world. Its mission has evolved over time and right now, the KfW banking group, which also includes subsidiaries to promote export deals and development projects in the global south, is an extremely powerful financial tool in the construction kit of German economic policymaking. Domestically, for a long time, the KfW has offered numerous programmes and credit lines to provide financial support for purposes such as the eco-friendly modernization of buildings, start-up grants for businesses and even student loans. In many ways, the KfW is Germany's financial Swiss army knife. During the pandemic, the toolkit of the KfW has been expanded by adding support programmes. The *KfW-Schnellkredit*, for example, offers rapid financial assistance for which nearly every firm can apply. Part of this credit line includes new loans up to €800,000 each with a fixed interest rate of 3%, amortization times of 10 years with an initial exemption of 2 years and zero risk assessments. As a side condition, entering a *Schnellkredit* arrangement requires limiting executive benefits to €150,000 per person and annum for the duration of the loan. For larger loans up to €100 mio. per corporation, the *KfW-Unternehmenskredit* covers up to 90% of the credit risk and offers even lower interest rates of 1%-1.5% for small- and medium-sized enterprises (KfW 2020b). It is important to note that the KfW does not engage in direct lending but serves as first intermediary. Its loans are fully guaranteed by the German state with the federal government covering 80% and the *Länder* the remaining 20%. If a firm wants to participate in a lending programme, it has to apply for this via its *Hausbank* which, as second intermediary, then passes on the funds to the applicant firm. The overall amount so far disbursed via the different KfW credit lines during the coronavirus pandemic totals €56.4 billion as of late November 2020, with almost 100,000 support applications accepted (KfW 2020a). **Figure 2** breaks down the volumes of each type of credit line, including the number of applications and cumulated monthly totals since March. We see that the *KfW-Schnellkredit* with 18,000 accepted applications and further loans up to €800 thousand accounts for more than 90% of all support loans granted. Yet, 23 individual loans of the biggest credit line (the one exceeding €100 million) also add up to nearly €16 billion. Regarding the timing, the vast majority – about 70% – of all loans were disbursed in the three-month period from April to June.

Figure 2 *KfW coronavirus aid programmes: volume of credit lines and number of applications by type of credit (I), cumulated number of applications by month (March-November 2020) (II).*



Note: volume and applications by type of credit (Fig. 2.I) L/R: KfW-Schnellkredit, loans up to €800K, loans up to €3M, loans up to €10M, loans up to €100M and loans exceeding €100M. Source: KfW (2020a) as of 26 Nov.

A final aspect of direct liquidity provision is the infusion of fresh equity into ailing firms. Contrary to loans, acquiring stakes implies that the state enters an ownership relationship with the firm. For this, the German government has set up the Economic Stabilization Fund (*Wirtschaftsstabilisierungsfonds*, WSF) which has a total volume of €600 billion and is administered by the German Finance Agency (*Finanzagentur*) that is also responsible for Germany's sovereign debt management. In addition to co-financing some of the aforementioned credit guarantees (€400 billion) and KfW

programmes (€100 billion), the WSF also has up to €100 billion at its disposal for direct recapitalization. **Table 1** details the engagements undertaken so far. Concerning the sectoral dimension of recapitalization measures we distinguish four industries, each affected specifically by the pandemic. First, aviation (*Lufthansa*) as a business that has been in crisis due to extremely fierce international competition, environmental regulation and slowly changing consumer (i.e. passenger) habits benefited from most of the WSF money. Battered by numerous scandals and crises, the traditional German flagship airline was facing severe troubles with a probable bankruptcy on the horizon. Therefore, the direct investment of the German state must also be interpreted as saving a national industrial giant with high symbolic and strategic value, which the battle for the rescue package makes clear. While Heinz Hermann Thiele, one of the company's principal shareholders with 15% of the stocks, heavily opposed government recapitalization in the beginning before ultimately succumbing in a high noon showdown (aeroTELEGRAPH 2020), critical observers like DIE LINKE took a swipe at the measure as only €300 mio. of the total package was converted into direct shares with the rest as silent partnership (FAZ 2020b). As a consequence, despite effectively supplying *Lufthansa* with twice as much money as its then stock market value, the German state only receives 20% of all shares and minimal voting rights. Although there were some conditions attached to the state aid, such as more ecological sustainability and a reduction in CEO pay and bonuses, German government authorities always made clear that they did not seek to interfere with daily business operations and corporate strategy. The politically toothless character of the Lufthansa recapitalization has recently become evident when the airline announced it would cut 29,000 jobs, of which one third are located in Germany, and another 10,000 domestic layoffs being discussed for 2021 (FAZ 2020c).

Table 1 *WSF recapitalization measures*

Company	Amount in € million (% of company's balance sheet total)		Contract formation
Deutsche Lufthansa AG	5,847.1	(20.1%)	06/2020; 09/2020 (adjusted)
FTI Touristik GmbH*	235.0	(86.1%)	09/2020
TUI AG	150.0	(1.4%)	09/2020
MV Werften Holding Ltd.	193.0	(n/a)	10/2020
German Naval Yards Kiel GmbH*	35.0	(71.6%)	10/2020
Schlote Holding GmbH	25.5	(9.5%)	11/2020
Total	**6,485.6**		**as of 20 November 2020**

Sources: German Finance Agency (2020), Lufthansa Group (2020), North Data (2020a, 2020b), Schlote Group (2020), TUI Group (2020); Note: balance sheet totals for 2019, except *(2018).

The second industry branch receiving direct recapitalization is tourism. Here, Munich-based FTI Touristik and the listed sectoral heavyweight TUI AG have been supported. A third sector for which WSF capital has been mobilized is the ailing automotive industry, one of Germany core sectors, if not the epitome of its economy. Here, Schlote, a holding company involved in many automotive suppliers of gear units, cogwheels or underbodies, has tapped fresh WSF capital. Fourth and finally, two of the country's traditional shipyards – MV Werften, representing the strong shipbuilding sector of the former GDR and German Naval Yards, a complex network of different firms like the former HDW-Gaarden, now owned by an UAE investment group – also received WSF support. In their cases both securing a strong footing in commercial cruise ship manufacturing as well as national security concerns regarding naval ships have played a crucial role (NDR 2020). Overall, some 60 firms have signalled interest in WSF support with 14 of them applying for direct recapitalization. Although it remains to be determined in how many of them the state is eventually going to become an ultimate owner, German Minister of Economic Affairs, Peter Altmaier (CDU), a longtime proponent of selective state ownership against the orthodox line of his own party, announced that his minis-

try is working out an equity holding strategy (Handelsblatt 2020). An illustrative example of this during the pandemic has been the €300 mio. investment in the Tübingen-based biotech firm Curevac – involved in the global arms race for a COVID-19 vaccine – for which the German government in return has secured 23% of the company shares (FINANCE 2020). Eventually, even some top industry representatives are increasingly open to new forms of state ownership as the statement by Siemens CEO Joe Kaeser, who actively demands that the state intervenes to shield critical industries from foreign takeover, illustrates (Der Aktionär 2020).

Despite the variety of different forms of financial aid and recapitalization, the crucial political question for progressives remains the same: should there be political, social and environmental conditions attached to any assistance and, if so, what should they look like? In the German case, there are only a few such conditions. While all companies receiving money from the KfW-Schnellkredit programme, for instance, are not allowed to disburse earnings or pay dividends, those receiving a WSF equity infusion might be subject to further conditionality like limited CEO pay or a strategic transition towards a more sustainable business model. Especially DIE LINKE, but also parts of SPD and Greens have pushed for stronger direct influence on corporations receiving financial assistance. So far, however, with limited success (LobbyControl 2020). Another central aspect of this discussion, again brought forward with emphasis by DIE LINKE, is the fact that all German DAX companies operate subsidiaries in countries classified as tax havens. If such firms were now to receive any financial aid during the pandemic (like Lufthansa), progressives demand that they stop tax dodging via international revenue flow shifts and instead force them to effectively prove that they conduct veritable operating business activities in those countries (Rixen 2020). This is especially important for any viable European initiative to combat corporate tax evasion, a topic supported by liberal EU commissioner Vestager, but regularly slowed down by German officials. Overall, there is a lack of accountability and control regarding the fulfilment of the conditions attached to KFW money during the coronavirus crisis (Tagesspiegel 2020).

POTENTIAL FOR A SUSTAINABLE ECONOMIC TRANSITION? WHAT IS THE OUTLOOK FOR TRADE UNIONS AND WORKERS?

As the previous sections have demonstrated, the German coronavirus economic relief package has not only been unprecedented in size and, given the relative dominance of the country, unmatched in Europe, it has also comprehensively tackled both the supply and the demand side of economic activity via a complex bundle of temporary tax reforms, the expansion of automatic stabilizers and the integration of the KfW, the largest national development bank in the world. But what does this hold in store in terms of a sustainable transition towards a green economy? And, what is the outlook for trade unions and workers in the entire process of both the pandemic and the near future?

After the immediate constraints challenges of the pandemic are successfully mitigated, the focus of the German authorities lies on making the economy rebound while at the same time steering and assisting investments into its modernization and sustainable transformation. The main measures for this are formulated in the governing coalition’s economic stimulus programme reaching well into the following years (BMF 2020a, 2020b). In addition to upgrading the country’s digital infrastructure with 5G data transmission and optical fibre high-speed internet accesses, a first reading of the package casts doubts on the effectiveness of the aspired transition. Although the chronically underfunded national railway company Deutsche Bahn (DB) is going to receive an additional €15 billion in equity infusion until 2030, almost €10 billion is to be invested in e-mobility with a strong focus on individual travel and transportation. This is not to say that cars will play no role in the future, but it clearly seems that the preferences concentrate on transforming, but not downsizing the automotive industry at the expense of substantially investing in regional and local passenger rail and transportation services, which are, especially in the countryside, but also in increasingly clogged urban areas, well below smooth functioning alternatives.

On a general note, the automotive industry continues to play an essential role for the German economy and can be viewed as one of the main beneficiaries of governmental aid and assistance, despite being relatively less successful in demanding outright mass financial payments compared to previous crises. As of 2020, more than 2.1 mio. workers

still depend directly on car manufacturing and sales, excluding those embedded in the international supply chain. This year, the two national powerhouses Daimler and VW have suffered most with combined losses of nearly €3.5 billion in the first six months due to drastic reductions in sales. Yet, the majority of all new cars sold is still made up of Diesel and regular gasoline engines, with hybrid technologies and e-mobility only amounting to 22% (FAZ 2020). Given these numbers and the political power of this industry it is – unfortunately – no surprise that the recent "auto summit", during which top business representatives discussed with cabinet members potential ways forward, has resulted in an additional support package. Adding to already existing measures from Spring 2020, the total numbers add up to nearly €5 billion with a strong focus on pushing sales instead of supporting a more profound environmentally sustainable transition of the industry. One example is grants for modernizing truck fleets and upgrading them to Euro 6 diesel norms without encouraging firms to invest in more climate-friendly means of transportation (SZ 2020).

An interesting point is the envisaged "national hydrogen strategy" according to which Germany strives to become the world's leading hydrogen technology supplier. Within the next decade, for instance, production capacities of at least 5 gigawatts should be up and running. This is of special importance for hydrogen-powered industrial production of the future, for example in the area of Green Steel, as formulated by the ailing industrial giant Thyssenkrupp (FAZ 2020a). Another €2 billion will flow into climate-friendly modernization of buildings, both public and private, which signals an increase in already well-established KfW programmes. Finally, by lifting compensation caps on photovoltaics and offshore wind parks, government authorities hope to push current energy production dynamics more swiftly in the direction of green technologies. Part of this is also down to a rise in public subsidies to stabilize energy costs for private consumers and businesses. A central component of the (constantly updated) Renewable Energy Sources Act (EEG) is price guarantees for producers of renewable energy of various kinds. Therefore, the so-called EEG surcharge, which varies depending on price fluctuations in the energy exchange and is paid by consumers per kilowatt-hour, will decline slightly to roughly 6 cents in the following two years, after having nearly constantly risen since coming into effect in the year 2000 with an initial price of 0.19 cents. Albeit this is going to be most probably nullified by new CO_2 surcharges on fuel and heating oil starting in 2021, it still helps to mitigate the distributive effects of these new measures to some extent.

For workers and unions, the coronavirus pandemic at least presents two fundamental challenges: a workplace-related challenge and an income-related one. Regarding the former, the spread of the virus has exposed the harsh working conditions, increasing stress levels and health and safety concerns many frontline workers face. Resulting from budget cuts, fiercer competition and increasing capitalization, workers in frontline jobs like healthcare, transportation, education, retail or – most notoriously in the German case – meat processing, have been suffering from sub-par protection and lax regulation for years; a fact that has eventually led to some public outrage in recent months. However, the pandemic also poses a severe economic threat to many workers and their families. In addition to the aforementioned automatic stabilizers of the German welfare state plus the manifold measures of the relief packages, the role of trade unions in supporting employment and wages must not be underestimated. While the general principle of German neo-corporatism can well be criticized for its export-oriented sectoral imbalance, its long-time negligence of temporary and contract work or for failing to acknowledge the necessity of effective socio-economic transformation by large parts of its organized workforce, it has also offered wage stability and employment security – especially during crises. This also holds true in times of coronavirus, when trade unions helped negotiate specialized compensation packages, structured short-time work arrangements and have kept perspectives of future employment in crisis-ridden industries like retail, travel and hospitality at the centre of the discussion (DLF Kultur 2020). Finally, German unions have also achieved a number of laudable new collective bargaining agreements in 2020, despite some justifiable criticism for falling short on some much-needed improvements. While the two biggest fish in the pond – the negotiations for new agreements in metalworking and manufacturing, including Volkswagen, with nearly 3 mio. workers covered – have been postponed until 2021, some notable gains were achieved for 2.2 mio. federal and municipal public sector employees, including parts of the public care and transportation workforce. The new collective bargaining agreement (TVöD) with a duration of two years, includes a two-step pay raise of a cumulated 3.2% and one-time, tax-exempt Coronavirus bonus payments of

between €300 – €600 for all employees, staggered by pay group (ÖDI 2020). Further accomplishments mitigating the negative effects of the pandemic were reached for more than 1 mio. workers in the construction (+2.1%) and retail sectors (temporary agreement on augmenting Kurzarbeitergeld during the pandemic) and, finally, for nearly another mio. temporary workers in the country's enormous low-wage sector (WSI 2020b). Summing up, the German collective bargaining system has proven remarkably stable this time when compared to some of the earlier economic crises, for example following 2007. On average, trade unions were able to achieve increases in real wages of 1.4%, that is a little less than in the previous year, but still substantially higher than in the 2017-18 period (WSI 2020a).

CONCLUSION: A FRAGILE RECOVERY

Having entered the outbreak of the coronavirus pandemic from a position of relative strength in the global economy and continuing dominance in the institutional framework of the European Union, Germany has "pulled out the bazooka" with its federal government, in tandem with fellow Länder and municipal authorities, having launched the biggest and one of the most comprehensive economic relief packages in Europe. Summarizing key points of this package along the dimensional lines of demand-side measures, supply-side measures, their transitory potential in the direction of a sustainable (green) economy and the integration of and outlook for trade unions and the working population, table 2 offers a consolidated look at what has been lined up so far. To recap its main components, the German recipe for stabilizing and re-igniting the economy while at the same time trying to mitigate the effects of two lockdowns, one in spring and another one from November to, at least, Christmas 2020, includes many different ingredients.

Table 3 *German economic relief packages during the coronavirus pandemic.*

Dimension	Key points
Demand-side measures	Expansion of Kurzarbeitergeld (KuG)
	Child bonus for families and single parents
	Easier access to basic security benefits
	Coronavirus bonuses for care workers
	Temporary VAT reduction
	November Aid to compensate for revenue losses
Supply-side measures	Temporary tax reforms (e.g. carry forwards)
	State guarantees for existing credit arrangements
	Expansion and creation of new KfW loan programmes
	Direct equity infusion/takeover protection via WSF
Transition towards a sustainable economy	Partial expansion of initiatives already planned
	(E-mobility, renewable energy, public infrastructure, transportation and energy-efficient modernization of buildings)
	Investment programme in part moved forward to 2021
Role of workers and trade unions	Sector-specific and relative to union density
	Persistence of the German neo-corporatism

Source: own illustration based on the text.

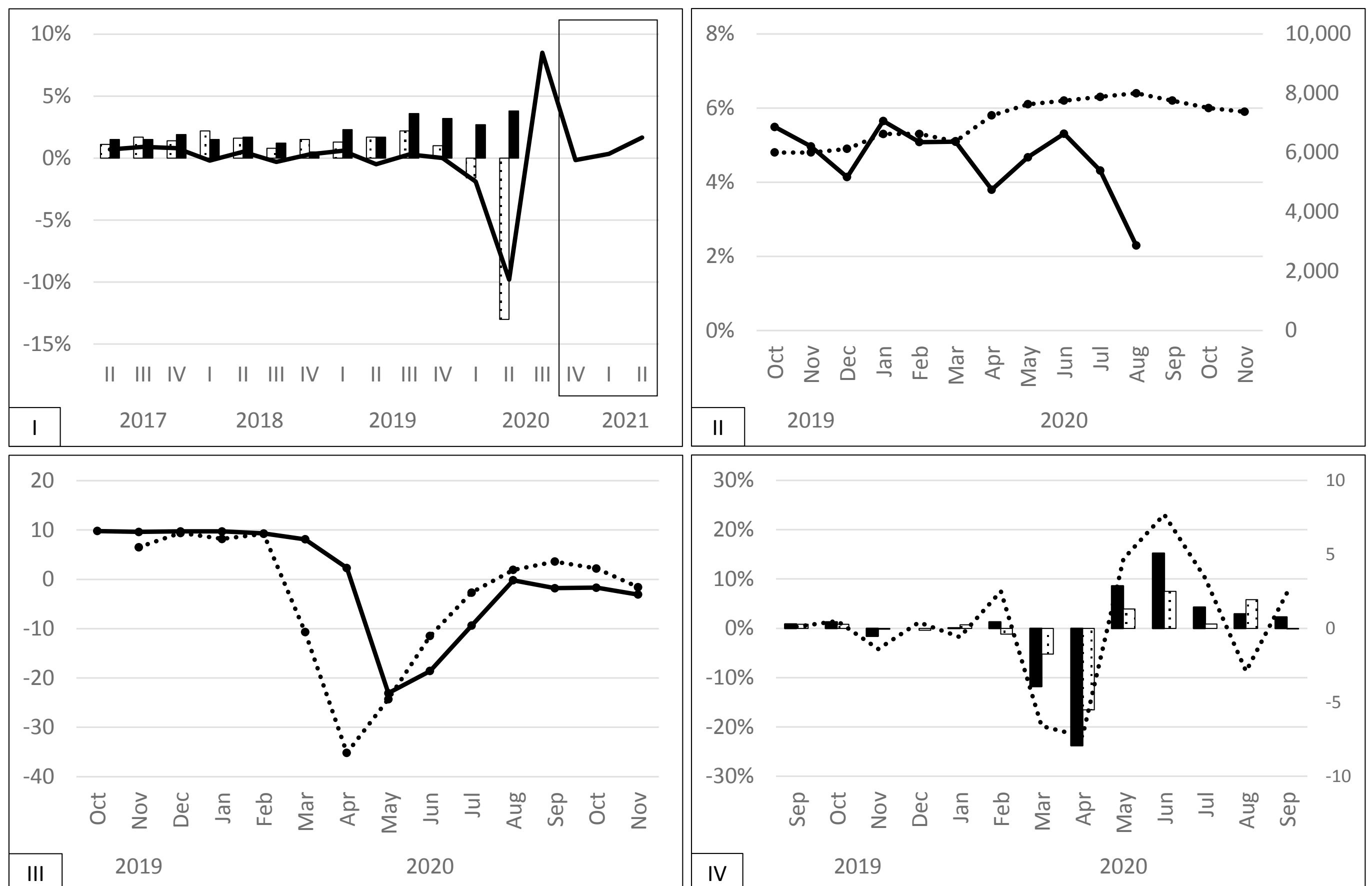
In addition to granting easier access to (minimal) basic security benefits for the self-employed, students and people working in so-called *Minijobs* making less than €450 per month, the German government also decided on further (minor) income boosts via child benefits or one-time coronavirus bonuses for workers in certain frontline sectors.

Moreover, a costly temporary VAT reduction was put in place to stimulate domestic consumption, but, according to various analyses, largely failed to do so (SVR 2020).

Clearly the most important demand-side measure has been the expansion, upgrading and prolongation of temporary short-term work, or *Kurzarbeit*, one of the country's most established crisis-proven automatic stabilizers. On the supply side, numerous temporary tax reforms as well as the suspension of bankruptcy disclosure duties so far have helped to prevent a wave of business failures. Further tools for corporate recapitalization and liquidity provision have included a massive loan guarantee programme, numerous specialized credit lines via the world's largest public development bank *KfW,* as well as the setup of a stabilization and takeover prevention fund for ailing firms in core industries called *WSF*. Regarding new initiatives from an eco-friendly transformation of German capitalism, there is actually not much new news in the wake of the pandemic, with a number of programmes already planned moved up and partially expanded. The role of trade unions, however, seems to have functioned once more according to the specific neo-corporatism of the German political economy with a number of inclusive collective bargaining agreements and supplementary concessions successfully negotiated.

But where do we go from here? **Figure 3** presents some crucial economic indicators for Germany before and during the pandemic allowing for some projections and suggestions. First, after two years of modest but steady economic growth, quarterly data for 2020 including a tentative outlook to 2021 shows a strong rebound after the first lockdown phase and the severe drop in GDP growth caused by it. Interesting, yet understandably government consumption has been the main contributor to economic stabilization, even before the crisis. This might indicate the necessity of German federal officials eventually stepping up investments and finally increasing public expansion for a continued period of time (**Figure 3**-I). Secondly, the different measures to stabilize the labour market, secure employment and prevent bankruptcies have largely worked until now. Despite the heavy drop in production and growth, the German labour market remains (surprisingly) stable with currently 5.9% of the workforce unemployed and numbers falling again. A similarly encouraging sign is the decreasing number of business failures, at roughly 3,000 in August 2020 (**Figure 3**-II). However, real numbers are considered to be much higher with an expected jump in bankruptcies once temporary aid programmes phase out and the suspension of disclosure duties ends early next year. This can exacerbate the problem of so-called *Zombie Firms*, a phenomenon not only present in Germany, and their potentially severe repercussions for the (European) banking architecture (Tagesschau 2020), for which the European Stability Mechanism (ESM) and the Single Resolution Fund (SRF) are said to be reformed quickly with Germany explicitly pushing for it (Zeit 2020).

Figure 3 *The outlook for the German economy. Selected indicators: Government consumption (dark) and private consumption (light) in % of GDP and GDP growth in %, quarterly values* (**I**)*; Unemployment rate in % (left) and number of firm bankruptcies (right), monthly values* (**II**)*; Consumption barometer (full) and business barometer (dotted), monthly values* (**III**)*; Exports (dark) and imports (light), monthly changes in % (left) and net exports (dotted) in pp (right)* (**IV**).



Sources: BA (2020), Destatis (2020), GfK (2020), ifo Institute (2020) and SVR (2020).

Thirdly, both consumer and business expectations remain at very low levels, although the worst fears seem to be over for now (**Figure 3**-III). Still, since the two survey indices serve as barometers and depend on key indicators like anticipated developments in wages, household spending and business orders, their dip signals the prevailing uncertainty about what might come next in the storyline of the pandemic and the hesitance of consumers and firms to switch back to full recovery mode just yet. Fourth and finally, the strong and lopsided export orientation of the German growth model remains a key imbalance to be eventually addressed. What is perceived as an undisputed strength by large parts of the country's economic and political elite is, in fact, much more likely to be proven as a weakness in disguise as critical commentators, academics and analysts have stressed numerous times. Snapshot numbers illustrate this point as the steep decline in net exports contributed significantly to a shrinking GDP in the second quarter of 2020, while much of the additional rebounding can be attributed to government consumption and the sharp reversal in net exports (**Figure 3**-IV).

To conclude, with the help of (mainly) plausible and largely effective government relief measures, the German economy has, so far, been able to weather the briskest winds of the coronavirus blizzard. What remains in the open, however, is the trajectory and robustness of the largest European economy in the near and not too distant future. Worries about the international trade architecture and whether the automotive industry, the country's powerhouse sector with its high added value, jobs and dense network of specialized supply firms, could successfully undergo an unavoidable transformation were already looming large before the

pandemic and are likely to further cloud the skies in the months and years ahead. In spite of a stronger focus on public investments in infrastructure, communication technologies, education, renewable energy production and CO_2 efficiency, the road remains rocky. Even more doubtful are the prospects for a more substantial shift away from an export-oriented growth model whose fiscal federalism (that also poses dramatic problems for many municipalities), low-wage service sector and neo-corporatist institutional framework keep wages in check at the expense of domestic consumption, although there might have been some changes occurring behind closed doors (Di Carlo & Höpner 2020). The question if a more permanent transformation towards more balanced, inclusive and sustainable growth that benefits the working class and, ultimately, also the country's European neighbours and friends, can be answered with a "yes" depends on union strength, continuing public mobilization and, eventually, the potential for a progressive government under a new chancellorship after the upcoming federal elections in September 2021.

BIBLIOGRAPHY

Aerotelegraph (aeroTELEGRAPH) (2020). *Lufthansa kann aufatmen – Thiele sagt ja*. June 26, 2020. https://t1p.de/ji9f [28 November 2020).

Bundesagentur für Arbeit (BA) (2020). *Arbeitslosenquote in Deutschland*. [via Statista]. https://t1p.de/4m49 [27 November 2020].

Bundesministerium der Finanzen (BMF) (2020a). *Corona-Folgen bekämpfen, Wohlstand sichern, Zukunftsfähigkeit stärken*. https://t1p.de/we6j [28 November 2020].

Bundesministerium der Finanzen (BMF) (2020b). *Das Konjunkturprogramm für alle in Deutschland*. https://t1p.de/c93n [25 November 2020].

Bundesministerium der Finanzen (BMF) (2020c). *Fragen und Antworten zu Novemberhilfe und Neustarthilfe für Soloselbstständige*. https://t1p.de/wsyd [28 November 2020].

Bundesministerium der Finanzen (BMF) (2020d). *Fragen und Antworten zur befristeten Senkung der Umsatzsteuer*. 16 July 2020. https://t1p.de/0cwa [24 November 2020].

Bundesministerium der Finanzen (BMF) (2020e). *Vereinfachtes Kurzarbeitergeld: Arbeitsplätze sichern*. 16 September 2020. https://t1p.de/jzj4 [23 November 2020]

Bundesministerium der Finanzen (BMF) (2020f). *Zweiter Nachtragshaushalt 2020 beschlossen – Kraftvolle und verantwortungsvolle Finanzpolitik zur Überwindung der Corona-Krise*. 17 June 2020. https://t1p.de/eafr [21 November 2020].

Bundesministerium für Arbeit und Soziales (BMAS) (2020). *Grundsicherung für Arbeitssuchenden (SGB II): Antworten zum Sozialschutz-Paket*. 6 October 2020. https://t1p.de/lqgz [24 November 2020].

Bundesministerium für Familie, Senioren, Frauen und Jugend (BMFSFJ) (2020). *Fragen und Antworten zum Kinderbonus*. 31 July 2020. https://t1p.de/dxp0 [24 November 2020].

Bundesministerium für Gesundheit (BMG) (2020). *Pflegebonus*. https://t1p.de/trko [27 November 2020].

Bundesrepublik Deutschland Finanzagentur GmbH (German Finance Agency) (2020). *Economic Stabilisation. Economic Stabilisation Fund*. https://t1p.de/vyp3 [18 November 2020].

Der Aktionär (2020). *Siemens: Klare Worte von Joe Kaeser*. 20 April 2020. https://t1p.de/0x4b [28 November 2020].

Der Spiegel (SPIEGEL) (2020). *Corona-Hilfen für die Wirtschaft. Scholz und Altmeier zücken die Bazooka*. 13 March 2020. https://t1p.de/wbaq [21 November 2020].

Der Tagesspiegel (Tagesspiegel) (2020). *Viel Aufwand, hohe Kosten. Diese Probleme bereitet die Mehrwertsteuersenkung dem Handel*. 10 June 2020. https://t1p.de/aeg1 [24 November 2020].

Deutschlandfunk Kultur (DLF Kultur) (2020). *Verdi-Chef Wernecke zur Corona-Krise, „Gewerkschaften sind so wichtig wie nie"*. Radio interview and transcription. 12 September 2020. https://t1p.de/29n8 [30 November 2020].

Di Carlo, Donato and Martin Höpner (2020). *Germany's silent rebalancing has been undone by COVID-19*. LSE EUROPP blog. 26 November 2020. https://t1p.de/j8rg [1 December 2020].

Eurostat (2020). *Produktion der Industrie, monatliche Daten. [sts_inpr_m]*. [16 November 2020].

Finance (FINANCE) (2020). *Bund wird Großaktionär bei Curevac*. 15 June 2020. https://t1p.de/0qks [28 November 2020].

Frankfurter Allgemeine Zeitung (FAZ) (2020). *Corona zwingt die Automobilindustrie zur Vollbremsung*. 17 August 2020. https://t1p.de/7lln [22 December 2020].

Frankfurter Allgemeine Zeitung (FAZ) (2020a). *Die Stahlproduktion soll grüner werden*. https://t1p.de/9hsk [29 November 2020].

Frankfurter Allgemeine Zeitung (FAZ) (2020b). *Gegenwind für die Lufthansa-Rettung*. 25 May 2020. https://t1p.de/zfzj [28 November 2020].

Frankfurter Allgemeine Zeitung (FAZ) (2020c). *Lufthansa streicht 29.000 Stellen*. 6 December 2020. https://t1p.de/u1io [22 December 2020].

Frankfurter Allgemeine Zeitung (FAZ) (2020d). *Schwache BIP-Zahlen. Weshalb die deutsche Wirtschaft kaum noch wächst*. 15 January 2020. https://t1p.de/zwzx [18 November 2020].

Frankfurter Rundschau (FR) (2020). *Corona Pandemie. Bundesverband der Deutschen Industrie beklagt verschärfte Klimaziele*. 16 September 2020. https://t1p.de/8rl6 [18 November 2020].

Gesellschaft für Konsumforschung (GfK) (2020). *GfK-Konsumklima-Index*. [via Statista]. https://t1p.de/tyrv [27 November 2020].

Handelsblatt (2020). *14 deutsche Unternehmen wollen eine Staatsbeteiligung*. 10 August 2020. https://t1p.de/wuhs [28 November 2020].

Ifo-Institut (ifo Institut) (2020). *Salden des ifo-Geschäftsklimas für die gewerbliche Wirtschaft in Deutschland (saisonbereinigt)*. [via Statista]. https://t1p.de/z4bq [27 November 2020].

Kreditanstalt für Wiederaufbau (KfW) (2020a). *Informationen für Medienvertreter und Multiplikatoren: KFW-Corona-Hilfe*. https://t1p.de/uixk [28 November 2020].

Kreditanstalt für Wiederaufbau (KfW) (2020b). *KfW-Corona-Hilfe*. https://t1p.de/own2 [28 November 2020].

LobbyControl (2020). *Corona-Hilfen: Debatte um Auflagen für Konzerne*. 7 May 2020. https://t1p.de/fa61 [22 December 2020].

Lufthansa Group (2020). *Deutsche Lufthansa AG Jahresabschluss 2019*. https://t1p.de/imxf [21 November 2020].

Manager Magazin (2019). *Handelskrieg und schwächere Binnennachfrage. Chinas Wachstum so schwach wie seit 30 Jahren nicht mehr*. 18 October 2019. https://t1p.de/isig [19 November 2020].

Norddeutscher Rundfunk (NDR) (2020). *Maritime Wirtschaft: alle Optionen werden geprüft*. 3 September 2020. https://t1p.de/6ly2 [28 November 2020].

North Data (2020a). *German Naval Yards Kiel GmbH, Kiel*. https://t1p.de/9jjc [21 November 2020].

North Data (2020b). *FTI Touristik GmbH, München*. https://t1p.de/bfun [21 November 2020].

Öffentlicher-Dienst.Info (ÖDI) (2020). *Tarifrunde TVöD 2020*. https://t1p.de/eysx [22 December 2020].

Redaktionsnetzwerk Deutschland (RND) (2020). *Arbeitsminister Heil: Bereits 18 Milliarden für Kurzarbeit ausgegeben*. 20 November 2020. https://t1p.de/xbvh [23 November 2020].

Rixen, Thomas (2020). *Corona-Beihilfen: Staatsbeihilfen und Steueroasen*. Wirtschaftsdienst, 100:6, 392. https://t1p.de/ozpy [22 December 2020].

Schlote Gruppe (2020). *Konzernabschluss 2019*. https://t1p.de/ofgu [20 November 2020].

Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (SVR) (2019). *Den Strukturwandel meistern. Jahresgutachten 2019/20*. Wiesbaden.

Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (SVR) (2020). *Corona-Krise gemeinsam bewältigen, Resilienz und Wachstum stärken. Jahresgutachten 2020/21*. Wiesbaden.

Statistisches Bundesamt (Destatis) (2020). *Verschiedene Zeitreihen*. https://t1p.de/rvrv [28 November 2020].

Surperformance SAS (2020). *MarketScreener data base*. https://www.marketscreener.com [21 November 2020].

Süddeutsche Zeitung (SZ) (2020). *Abwrackprämie für Brummis – Zuschüsse für E-Auto-Käufe*. 17 November 2020. https://t1p.de/8iqy [22 December 2020].

Tagesschau.de (Tagesschau) (2020). *Warnung von Ökonomen. Droht eine neue Bankenkrise?* 1 December 2020. https://t1p.de/2l5h [1 December 2020].

Tagesspiegel (2020). *Auflagen der KfW-Kredite. Niemand kontrolliert, ob trotz Staatshilfe Boni gezahlt werden*. June 6, 2020. https://t1p.de/jcif [22 December 2020].

TUI Group (2020). *Jahresabschluss 2019 TUI AG*. https://t1p.de/lkje [21 November 2020].

Wirtschafts- und Sozialwissenschaftliches Institut (WSI) (2020a). *Tarifbilanz des WSI-Tarifarchivs*. https://t1p.de/q987 [22 December 2020].

Wirtschafts- und Sozialwissenschaftliches Institut (WSI) (2020b). *Tarifrunde 2020. Aktueller Überblick*. https://t1p.de/w33j [22 December 2020].

Zeit Online (Zeit) (2020). *Eurorettungsschirm. Starker Euro, schwache Banken – Wozu dient die ESM-Reform?* 30 November 2020. https://t1p.de/9znl [1 December 2020].

European Union strategies to tackle the economic impact at the outbreak of the COVID-Crisis

*By **Matteo Gaddi**, member of the Scientific Committee of the Claudio Sabattini Foundation and a trade union official at CGIL in Reggio Emilia. He carries out research and training activities on the themes of work organization, new technologies and economic and industrial policies. Among his recent publications are "Industry 4.0: freer or more exploited?" (2019) and "Automotive and electric mobility" (2019).*

The analysis of the "Temporary Framework" on State Aid in the COVID emergency phase established by the European Commission is very important from a political point of view because it defines the economic and social policy guidelines that guide the action of the EU institutions (and Member States) in this dramatic phase.

Previously, the Commission set out in the Communication on a coordinated economic response to the COVID-19 outbreak of 13 March 2020 several options available to Member States outside the scope of EU State aid control and which they may put in place without the involvement of the Commission: wage subsidies, suspension of payments of corporate and value-added taxes or social welfare contributions, or financial support directly to consumers for cancelled services or tickets not reimbursed by the operators concerned.

This "Temporary Framework" has been defined on the basis of the consideration that the impact of the COVID-19 pandemic on the economy occurs through different channels:

- a supply shock due to disruption of supply chains;
- demand shocks caused by lower consumer demand;
- the negative effect of uncertainty on investment plans and the impact of liquidity problems for companies.

Each of these concerns is well-founded, but the European Commission simply lists them without going into the substance of the problems:

- supply chains are not something "natural": they are the result of precise political choices (total freedom of movement of capital, goods and companies) that have determined the particular structure of international production chains, through outsourcing, relocation and foreign direct investment processes. Solving these problems requires a different approach to the European industrial structure, but this issue is never mentioned.
- the reduction in consumer demand is the result of years of policies of wage deflation and weakening of workers' rights aimed at strengthening the competitiveness of European goods on international markets to support an export-led economic model (with further compression of domestic demand).
- uncertainties about investment plans should focus attention on the investment dynamics of these years, aimed either at restructuring the European industrial structure as mentioned above, or at increasing company profitability through an increase in productivity, through greater exploitation of workers (Industry 4.0, digitisation, etc.).

These three aspects are closely intertwined: for example, it would be wrong, as some left-wing scholars do, to focus attention on the reduction of demand due to wage deflation without combining this reasoning with the current European industrial structure, as addressing only part of the problem could lead to new imbalances in Europe. This means that it is not enough to focus on the necessary increase in wages, public demand and consumption in general without taking into account the distribution of industrial production volumes in Europe. If this increase in demand is not accompanied by an appropriate industrial policy, it could result in a growth in imports for countries with a weak industrial structure, in favour of those in Europe's core areas.

Obviously, the European Commission has not even touched on these issues, as it has clearly stated in its Communication that its objective is to establish a framework to enable Member States to address the difficulties currently faced by businesses, while preserving the integrity of the EU internal market and ensuring a level playing field.

The objective of protecting "market logic" affects the Communication as a whole and touches on all measures set out in it.

The measures provided for in the Temporary Framework are temporary (30 June 2021) and justified by the exceptional nature of the COVID-19 pandemic and the fact that such damage could not have been foreseen, are of considerable magnitude and have therefore placed companies in conditions that differ significantly from the market conditions in which they generally operate.

So, just because "normal market conditions" have changed, the European Commission intervenes with this Framework which, however, as we shall see, is very limited and contradictory.

In fact, the Communication (consolidated version, point 10) states that: "Targeted and proportionate application of EU State aid control serves to make sure that national support measures are effective in helping the affected undertakings during the COVID-19 outbreak but also that they allow them to bounce back from the current situation (….).

EU State aid control ensures that the EU Internal Market is not fragmented and that the level playing field stays intact. The integrity of the Internal Market will also lead to a faster recovery".

How, and to what extent, the integrity of the internal market can contribute to a fast recovery is not explained.

Member States may also compensate companies in sectors particularly affected by the pandemic, such measures will be assessed by the Commission under Article 107(2)(b) TFEU; the latter type of aid is not "rescue aid, restructuring aid or temporary restructuring aid", but simply aid to make good the damage caused by natural disasters or exceptional occurrences. This aid, therefore, is only granted to compensate for damage caused directly by the COVID-19 pandemic, e.g. damage caused directly by quarantine measures preventing the beneficiary from exercising its economic activity.

On the other hand, other types of aid aimed at remedying more generally the economic crisis triggered by the COVID-19 pandemic must be assessed on the basis of compatibility with Article 107(3)(b) TFEU.

These statements state very clearly that there is no intention on the part of the EU institutions to promote structural change measures, but only measures to restore the situation prior to the pandemic (but the roots of the crisis lie directly in the previous situation that the European Commission would like to restore).

Further proof of this is the fact that the granting of aid, both at national and European level, is not conditioned to any social (employment levels, job creation, wage improvement) or industrial objective (what kind of investments, in which sectors, prohibition of relocation, etc.).

On the contrary: the conditionings introduced by the European Commission in some cases are the exact opposite of what would be needed.

For example, in point 16b, it is established that "Aid granted under this Communication on the basis of Article 107 (3)(b) or (c) TFEU shall not be conditioned on the relocation of a production activity or of another activity of the beneficiary from another country within the EEA to the territory of the Member State granting the aid. Such a condition would appear to be harmful to the internal market. This is irrespective of the number of job losses that actually occurred in the initial establishment of the beneficiary in the EEA".

From a general point of view, the Commission has established that State aid compatible with the internal market must meet, among others, the following conditions (point 22):

- The aid may be granted in the form of direct grants, tax and payment advantages or other forms such as repayable advances, guarantees, loans and equity;
- Aid is granted on the basis of a scheme with an estimated budget;
- Aid may not be granted to undertakings that were already in difficulty on 31 December 2019;
- Aid can be granted only to micro or small enterprises that were already in difficulty on 31 December 2019 provided that they are not subject to collective insolvency procedure under national law, and that they have not received rescue aid or restructuring aid.

This step is of great importance. In general, all companies in difficulty before 31 December 2019 are excluded from this aid. As indicated by Commission Regulation (EU) N. 651/2014, a company in difficulty is a company that meets at least one of the following circumstances:

- In the case of a limited liability company (other than an SME that has been in existence for less than three years or with certain characteristics) where more than half of its subscribed share capital has disappeared as a result of accumulated losses;
- In the case of a company where at least some members have unlimited liability for the debt of the company (other than an SME that has been in existence for less than three years or with certain characteristics), where more than half of its capital as shown in the company accounts has disappeared as a result of accumulated losses;
- Where the undertaking is subject to collective insolvency proceedings or fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors;
- Where the undertaking has received rescue aid and has not yet reimbursed the loan or terminated the guarantee, or has received restructuring aid and is still subject to a restructuring plan;
- In the case of an undertaking that is not an SME, where, for the past two years: (1) the undertaking's book debt to equity ratio has been greater than 7,5 and (2) the undertaking's EBITDA interest coverage ratio has been below 1,0.

As seen, the list of circumstances that allow a company to be classified as being in "difficulty" is very wide and, above all, also involves companies that may be in the process of restructuring. This provision risks greatly limiting the capacity of public intervention to resolve industrial crises.

Neo-liberal market logics once again prevail, regardless of any social and industrial considerations: European rules exclude from the State aid scheme companies that were already in difficulty on 31 December 2019 (2019 was not a good year for the European economy, so it is possible that many companies may have fallen into a difficult situation already in that year; these European rules preclude them from benefiting from aid under the "Temporary Framework" to try to recover a less negative situation).

It would seem paradoxical: state aid, according to European rules, can only be granted to "healthy" companies. This is not a paradox, but a precise political choice: any public intervention, including those classified as state aid, is considered by the European Commission as a distortion of the market and competition, and is therefore to be prevented at all costs (even at the cost of heavy social costs).

AID IN THE FORM OF LOAN GUARANTEES

The European Commission considers it useful that, in order to ensure access to liquidity for companies in a situation of sudden shortage, public guarantees on loans are used until 31 December 2020.

For loans with a maturity date beyond 30 June 2021, the overall amount of loans per beneficiary shall not exceed: a) double the annual wage bill of the beneficiary for 2019; b) 25% of the beneficiary's total turnover in 2019; or c) with appropriate justification provided by the Member State to the Commission (for example in connection with the characteristics of certain types of undertakings), the amount of the loan may be increased to cover the liquidity needs from the moment of granting for the coming 18 months for SMEs and for the coming 12 months for large enterprises.

For loans with a maturity date until 30 June 2021, the amount of the loan principal may be higher.

The duration of the guarantee, in general, is limited to a maximum of six years and may not exceed: a) 90% of the loan principal where losses are sustained proportionally and under the same conditions by the credit institution and the State; or b) 35% of the loan principal, where losses are first attributed to the State and only then to the credit institutions (i.e. a first-loss guarantee).

This guarantee shall relate to investment and/or working capital loans, but undertakings that were already in difficulty are excluded (with the exception of micro or small enterprises).

Also, in this case we highlight this seeming paradox, and again no social or industrial conditions are established: for example, it does not mean anything to say that this money must be spent for personnel expenses if no dismissal ban

is established; or for investments if nothing is said about what kind of investments can be made with these public guarantees.

AID IN THE FORM OF SUBSIDISED INTEREST RATES FOR LOANS

In order to support the liquidity of companies, the Temporary Framework provides for the possibility of applying subsidised interest rates or resorting to subordinated debt. It is very interesting to underline this passage: "Such debt is a less distortive instrument than equity or hybrid capital, since it cannot be converted automatically into equity when the company is a going concern".

The concern of the European Commission is very clear: States must guarantee companies the liquidity they need, but they cannot even think of using these instruments to enter into the equity of companies, since public sector participation in companies is defined as a distortive element.

The loan contracts are signed by 30 June 2021 at the latest and, in general, are limited to a maximum period of six years.

For loans with a maturity date beyond 30 June 2021, the overall amount of loans per beneficiary shall not exceed: a) double the annual wage bill of the beneficiary for 2019; b) 25% of the beneficiary's total turnover in 2019; or c) with appropriate justification provided by the Member State to the Commission (for example in connection with the characteristics of certain types of undertakings), the amount of the loan may be increased to cover the liquidity needs from the moment of granting for the coming 18 months for SMEs and for the coming 12 months for large enterprises.

For loans with a maturity date until 30 June 2021, the amount of the loan principal may be higher.

With regard to the exclusion of companies in difficulty and the possibility of using these funds, the same comments made in the previous paragraph apply.

SHORT-TERM EXPORT CREDIT INSURANCE

The Commission considers all commercial and political risks associated with exports to the countries as temporarily non-marketable until 30 June 2021: The Commission therefore allows these export credits to be covered by the States.

Also in this case, no social conditions are imposed.

AID FOR COVID-19 RELEVANT RESEARCH AND DEVELOPMENT

The Commission will consider compatible with the internal market aid for R&D projects carrying out COVID-19 and other antiviral-themed research.

The aid is granted in the form of direct grants, repayable advances or tax advantages by 30 June 2021.

Eligible costs may refer to all the costs necessary for the R&D project during its duration, including, amongst others, personnel costs, costs for digital and computing equipment, for diagnostic tools, for data collection and processing tools, for R&D services, for trials, etc. The aid intensity for each beneficiary may cover 100% of eligible costs for fundamental research and shall not exceed 80% of eligible costs for industrial research and experimental development.

The aid intensity for industrial research and experimental development may be increased by 15 percentage points if more than one Member State supports the research project, or it is carried out in cross-border collaboration with research organisations or other undertakings.

This measure shows how the European institutions are at the service of private companies: Member States can finance even 100% of the R&D activities of pharmaceutical companies, but the latter can then use these results under market conditions, without States being able to impose public interest conditions.

OTHER STATE AID CONCERNING COVID-19

The aid is granted for the construction or upgrade of testing and upscaling infrastructures required to develop, test and upscale, up to first industrial deployment prior to mass production, COVID-19 relevant medicinal products (including vaccines) and treatments, their intermediates, active pharmaceutical ingredients and raw materials; medical devices, hospital and medical equipment and necessary raw materials, etc. The aid is granted in the form of direct grants, tax advantages or repayable advances by 30 June 2021.

Eligible costs are the investment costs necessary for setting up the testing and upscaling infrastructures required to develop the products listed above. The aid intensity shall not exceed 75% of the eligible costs; but the maximum allowable aid intensity of the direct grant or tax advantage may be increased by an additional 15 percentage points, either if the investment is concluded within two months after the date of aid granting or date of application of the tax advantage, or if the support comes from more than one Member State.

The only conditions imposed to access this aid are the following: The price charged for the services provided by the testing and upscaling infrastructure shall correspond to the market price; the testing and upscaling infrastructures shall be open to several users and access shall be granted on a transparent and non-discriminatory basis.

That is, also in this case no public interest objectives are imposed.

The European Commission also intends to facilitate the production of COVID-19 relevant products: relevant medicinal products (including vaccines) and treatments, their intermediates, active pharmaceutical ingredients and raw materials; medical devices, hospital and medical equipment and necessary raw materials; disinfectants and their intermediary products and raw chemical materials necessary for their production; data collection/processing tools.

The aid is granted in the form of direct grants, tax advantages or repayable advances by 30 June 2021.

Eligible costs relate to all investment costs necessary for the production of the products listed and to the costs of trial runs of the new production facilities. The aid intensity shall not exceed 80% of the eligible costs; but the maximum allowable aid intensity of the direct grant or tax advantage may be increased by an additional 15 percentage points, either if the investment is concluded within two months after the date of the aid granting or the date of application of the tax advantage, or if the support comes from more than one Member State.

Also, in this case no public interest objectives are imposed.

Aid in the form of deferrals of tax and/or of social security contributions and Aid in the form of wage subsidies for employees to avoid lay-offs during the COVID-19 outbreak

The Temporary Framework states that deferrals of payment of taxes and/or of social security contributions may be a valuable tool to reduce the liquidity constraints of undertakings and preserve employment.

Even in order to preserve employment, Member States may envisage contributing to the wage costs of undertakings, which, due to the COVID-19 outbreak, would otherwise lay off personnel or to the wage equivalent income of self-employed individuals for whom the adoption of national measures in response to the COVID- 19 outbreak resulted in the suspension or reduction of their business activity.

The aid is aimed at avoiding lay-offs during the COVID-19 outbreak, and the wage subsidy is granted over a period of not more than twelve months after the application for aid, for employees that would otherwise have been laid off as a consequence of the suspension or reduction of business activities due to the COVID-19 outbreak and subject to the condition that the benefitting workforce is maintained in continuous employment for the entire period for which the aid is granted.

The constraint not to proceed with the redundancies only applies during the period of the grant, but nothing is established in the following period, suggesting that the companies, after having used these public funds, will be able to decide freely on employment levels.

RECAPITALISATION MEASURES

This paragraph is one of the most interesting of the Temporary Framework, as it would allow states that recapitalise companies to enter their equity (it should be a natural procedure: usually if someone participates in the capital increase – to a considerable extent – he also becomes a partner in the company; but, unfortunately, we will see that this is not the case).

The Temporary Framework sets out the criteria under EU State aid rules, based on which Member States may provide public support in the form of equity and/or hybrid capital instruments to undertakings facing financial difficulties due to the COVID-19 outbreak, but at the same time, the Commission underlines that providing national public support in these forms should only be considered if no other appropriate solution can be found because such instruments are highly distortive for competition between undertakings. Against this background, the Commission notes that designing national support measures in a way that meets the EU's policy objectives related to green and digital transformation of their economies will allow for more sustainable long-term growth.

In these lines some key points of the European approach are summarised:

- States can support the strengthening of corporate equity, but their intervention (especially if it results in the entry of the State in the share capital) must not introduce distortions in competition;
- it is important to design measures for the green and digital transition, but essentially this must be left to companies and the market.

The COVID-19 recapitalisation measure must fulfil the following conditions:

- without the State intervention the beneficiary would go out of business or would face serious difficulties in maintaining its operations;
- it is in the common interest to intervene, for example to avoid social hardship and market failure due to significant loss of employment, the exit of an innovative company, the exit of a systemically important company, the risk of disruption to an important service etc.;
- the beneficiary is not able to find financing on the markets at affordable terms and the horizontal measures existing in the Member State concerned to cover liquidity needs are insufficient to ensure its viability.

Basically, the neo-liberal pillars of the European approach referring to "market failures" and/or the objective of preventing an innovative or systemically important company from leaving the market are confirmed. That is, these interventions are designed only to save the market.

Undertakings that were already in difficulty on 31 December 2019 are excluded (with the exception of micro or small enterprises).

This exclusion is particularly serious.

In some legal systems (for example in Italy), alternative instruments to bankruptcy are provided for in order to guarantee the continuity of productive activity and therefore to guarantee the continuity of employment levels and important industrial plants. These are insolvency procedures defined in the context of business crisis law, such as extraordinary administration, or composition with creditors, which have the explicit aim of ensuring continuity of production, avoiding bankruptcy. Often a recapitalisation intervention, combined with an industrial and investment plan, makes it possible to restructure companies, guaranteeing their continuity and avoiding factory closures, redundancies, loss of skills and knowledge.

But, as we have repeatedly pointed out, for the European Commission, industrial policies coincide with the dogma of the market and its operating logic. Or rather: when there are market failures the State must give money to companies, but without any role for public Bodies.

Member States can provide COVID-19 recapitalisation measures using two distinct sets of recapitalisation instruments:

a) equity instruments, in particular, the issuance of new common or preferred shares; and/or
b) instruments with an equity component (referred to as 'hybrid capital instruments'), in particular profit participation rights, silent participations and convertible secured or unsecured bonds.

The document defined by the European Commission specifies that "Hybrid capital instruments are instruments that

have characteristics of debt as well as of equity. For instance, convertible bonds are remunerated like bonds until they are converted into equity". But there is a significant difference between equity and debt.

For example, bonds are debt securities issued by a company to finance itself; they give the buyer the right to repayment of the capital plus interest (remuneration), but they do not give the right to voting rights, i.e. participation in the governance of the company: therefore the State would only be the lender.

The holder of debt securities of a company, unlike the shareholder, does not participate in the management activity of the issuer, not having the right to vote in the shareholders' meetings. It is assumed, therefore, that the objective of this rule is to have the debt securities issued by companies purchased by a public fund, but without this entailing anything in terms of participation in the company whose capital has been increased.

The choice of financial instruments through which the State can intervene is not accidental, but responds to a very precise political choice; that is, to limit public participation in the companies that will be financed with these public funds.

For example, convertible bonds are securities that give their holder the right to decide whether to remain a creditor of the issuing company for the entire duration of the loan, or whether, in certain periods, to convert its status from creditor to partner (shareholder). Therefore, it is not certain that the option of becoming a full shareholder of the company will be exercised by the Asset.

In general, the strengthening of equity ("recapitalisation") is quite general, as these operations can take place in different ways, for example through:

- with a new issue of shares assigned against payment of consideration;
- with the issue of savings shares;
- by issuing bonds convertible into shares.

Please note that bonds and savings shares do not carry voting rights; therefore, also in this case the State would be limited to providing (public) funds but without any form of public participation in the company being financed.

Therefore, the recapitalisation of companies must be carried out by States through the subscription of shares so that States become full shareholders of companies, so that they can participate in their governance, take part in strategic decisions, etc.

There are even special remuneration mechanisms to induce companies to get rid of the presence of the State: four years after the COVID equity injection, if the State has not sold at least 40 per cent of its equity participation resulting from the COVID equity injection, the step-up mechanism will be activated, and the same thing happens if, six years after the COVID equity injection, the State has not sold its equity participation in full. The step-up mechanism means that the increase in the State's remuneration is achieved by means of increased rates to give the beneficiary undertaking an incentive to repurchase the State capital injections.

Moreover, precisely because the State is not given any role, the Commission has introduced some restrictions for the companies benefiting from this measure. Indeed, "In order to prevent undue distortions of competition beneficiaries must not engage in aggressive commercial expansion financed by State aid or beneficiaries taking excessive risks": as long as at least 75% of the recapitalisation measures have not been redeemed, beneficiaries other than SMEs shall be prevented from acquiring a more than 10% stake in competitors or other operators in the same line of business, including upstream and downstream operations. Only in exceptional circumstances may such beneficiaries acquire a more than 10% stake in operators upstream or downstream in their area of operation, only if the acquisition is necessary to maintain the beneficiary's viability.

In this way, the possibility of strengthening production networks is precluded: this is contradictory to the objectives of growth of companies, integration in supply chains, size growth of companies, etc.

The small size of Europe's many SMEs is undoubtedly an element of weakness in the European industrial system, but at the same time it is one of the elements on which capital has restructured to weaken workers' initiative. The presence of the State in some enterprises, through these recapitalisation operations, could have been a tool to reconstruct the production chains previously fragmented by capital strategies. This means that public intervention,

through forms of public ownership, should make possible aggregation processes between small enterprises in order to set up production clusters with a larger industrial and employment dimension. This could achieve two objectives: on the one hand, the growth in size of companies that are currently too small; on the other hand, overcoming the fragmentation (or even competition) of the workforce.

AID IN THE FORM OF SUPPORT FOR UNCOVERED FIXED COSTS

Member States may envisage contributing to the uncovered fixed costs of those undertakings for which the COVID outbreak resulted in the suspension or reduction of their business activity: this aid is granted on the basis of a scheme to undertakings that suffer a decline in turnover during the eligible period of at least 30% compared to the same period in 2019.

The aid intensity shall not exceed 70% of the uncovered fixed costs, except for micro and small companies where the aid intensity shall not exceed 90% of the uncovered fixed costs.

The overall aid shall not exceed EUR 3 mio. per undertaking. The aid may be granted in the form of direct grants, guarantees and loans provided the total nominal value of such measures remains below the overall cap of EUR 3 mio. per undertaking; all figures used must be gross, that is, before any deduction of tax or other charge.

Also, in this case aid may not be granted to undertakings that were already in difficulty on 31 December 2019; but in derogation to the above, aid can be granted to micro or small enterprises.

Obviously, also in this case there are no social or industrial commitments for the beneficiary companies.

The analysis of the Conclusions of the European Council (21 July)

GENERAL AND INTRODUCTORY REMARKS

On 21 July, the European Council defined a document of conclusions with respect to the Commission's proposal which presented, at the end of May, a package of measures combining the future Multiannual Financial Framework (MFF) with an instrument to tackle the extraordinary crisis caused by the COVID-19 pandemic, called Next Generation EU.

The MFF is an ordinary instrument, provided for in Article 312 TFEU, which aims to ensure the orderly development of the Union's expenditure within the limits of its own resources; it is established for a period of at least five years and essentially determines the annual budget of the EU (The annual budget of the Union shall be established in accordance with the multiannual financial framework).

The Next EU Generation, on the other hand, is an extraordinary plan, defined in the light of the exceptional nature of the economic and social situation resulting from the COVID-19 crisis, which imposes exceptional measures to support the recovery and resilience of Member States' economies: basically is an "exceptional response to those temporary but extreme circumstances, the powers granted to the Commission to borrow are clearly limited in size, duration and scope".

The aim of this instrument is to define a European recovery plan made up of public and private investment at European level capable of launching "the Union firmly on the path to a sustainable and resilient recovery, creating jobs and repairing the immediate damage caused by the COVID-19 pandemic whilst supporting the Union's green and digital priorities".

In the European Council document the two instruments (NG-EU and MFF) are treated as inseparable, so much so that the NG-EU is conceived as a strengthening of the MFF.

Their duration, however, is different: while the MFF covers the period 2021-2027, the NG-EU should concentrate its efforts between 2021 and 2023 (although, as we will see, the collection of resources may go up to the end of 2026).

In this brief analysis we focus mainly on the NG-EU.

FINANCING METHODS

As seen, the NG-EU should constitute an extraordinary plan for economic and social recovery to cope with the effects of the COVID-19 crisis.

To finance this plan, the Commission will be able to borrow on the capital markets: these amounts will be used to support EU programmes in accordance with the Next Generation EU.

It is very important to underline this passage because, on the political level, it is the breaking of a taboo, i.e. the possibility, for the first time, for the European institutions to have recourse to forms of debt.

We do not deny that the passage relating to the issue of bonds by the Commission is an important innovation, but we believe that a detailed analysis of the official documents allows us to highlight the worrying criticality of the choices made, which are in line with traditional European policies.

Loans to be contracted on the capital market could reach €750 bn.; the raising of these resources will cease at the end of 2026.

The €750 bn. raised can be used as follows: €360 bn. to be disbursed as loans to Member States, and €390 bn. as Grants.

The 360 bn., being loans, will therefore have to be repaid at Community level by the States that will benefit from them.

More generally, since they are loans taken out on the markets, the entire amount of the 750 bn. will have to be repaid to the lenders, so the repayment schedule foresees that on 31 December 2058 the loans will be repaid, through a plan that during this time will allow a constant and predictable reduction of the liabilities (i.e. these loans, which for the EU are debts).

How will the mechanism for finding these resources, which basically constitute a sort of Eurobond, be implemented in practice?

At a Community level, in fact, there is no kind of Treasury Ministry that can issue bonds, not even an expressly dedicated Agency/Institution; so who could do it and under what conditions?

Could the EIB do it? In this regard, in the Annex, it just says that: "The European Investment Bank (EIB) should have the necessary capital to implement Union policies. The EIB Board of Governors is invited to review the capital adequacy of the EIB in view of the instruments included in the MFF and NGEU as well as the Bank's contribution to the Union's ambitions in fighting climate change and digitalising Europe's economy. In light of this review, the Board of Governors, acting unanimously, shall decide on the size and modalities of any capital increase by end 2020". This is how the EIB seems to be presented as an instrument to support the implementation of the MFF and NG-EU objectives, i.e. its role as issuer for the collection of the necessary resources is not made explicit.

Could the ECB do this? It is not even mentioned in the document. Moreover, central banks are, if ever, buyers of bonds, as has been the case with the various quantitative easing programmes of the Fed and the ECB, while they issue money, in the case of the ECB, euros.

The ECB can buy but not issue securities, its assets are in currency, not securities.

Or the issue of such bonds could be attributed, by share, to the Member States (through their issues by their respective Treasury Ministries) on the basis of the financial needs of the programmes they will present within the NG-EU. Subsequently, such bonds could be purchased by the ECB; but in this case, would they constitute an increase in the debt of each Member State accessing this type of operation? In this case it would not be clear how much effective mutualisation (sharing) of the (future) debt would take place, because it would still be the individual States that would be indebted.

The ECB, under current legislation, cannot make purchases on the primary market, but only on the secondary market: it is true, however, that the ECB's intervention on the secondary market and the EU guarantee (through its own balance sheet) could contain the yields on these bonds. In this way, among other things, it would be possible to avoid the return value of these bonds being left to the risk assessment of the issuer, i.e. of each individual State that will issue these bonds. If the intervention of the ECB, even if on the secondary, were to succeed in containing the cost of the debt, its amount would nevertheless be destined to increase: in this way, could not the conditions be determined to impose, on the basis of the

current European legislation, the traps on the States that incur so-called "macroeconomic imbalances"?

In fact, even if obtained at preferential rates, the loans in question would increase the stock of debt of countries that decide to use them. For countries that already possess high debt ratios, the "macroeconomic imbalances" trap – the surveillance and enforcement mechanism to prevent and correct macroeconomic imbalances within the EU – could therefore be triggered.

The Macroeconomic Imbalance Procedure is a surveillance and enforcement mechanism that aims to prevent and correct macroeconomic imbalances within the EU and "domestic imbalances" include the level of public debt.

The procedure foresees, in fact, the possible prescription of corrective recommendations: if the Commission considers that the Member State in question presents excessive imbalances, it must inform Parliament, the Council, the Eurogroup, the relevant European Supervisory Authorities and the European Systemic Risk Board (ESRB) and on a recommendation from the Commission, the Council may adopt a recommendation to the Member State concerned to take corrective action (i.e. policy recommendations to be followed, indicating the deadline for the Member State concerned to present a corrective action plan).

In fact, there is no passage in the Conclusion document that explicitly "suspends" this possible debt incurred by States to finance NG-EU programmes from the calculation of the indicators of the "macroeconomic imbalances" as is done for the liabilities that will be assumed for "own resources". With regard to the latter, in fact, it is explicitly stated that the Commission will be able to "call more resources from Member States than their respective relative share, without increasing the ultimate liabilities of the Member States, and set out the conditions thereof".

Again: on 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact; in its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause.

The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory.

It is very clearly stated that the general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

The conditions under which these resources will be acquired on the secondary market are not clear either. Moreover, as the funding period is not short (until 31 December 2023), could the funding conditions change over time?

These doubts are due to the fact that the Conclusion document refers only to the repayment of the capital share, but the cost of the debt incurred must also be taken into account (i.e. the interest rates which, being referred to a three-year period, could change during this period).

For borrowing, the European Commission will amend the own resources decision and increase the margin of manoeuvre, i.e. the difference between the own resources ceiling in the long-term budget and actual expenditure. The amounts of the ceilings will be temporarily increased by 0.6 percentage points.

Let us therefore see what the own resources are:

- "Traditional": customs and agricultural duties, sugar and isoglucose levies. They represent about 15% of revenue;
- Based on VAT. They account for about 12% of revenue;
- Based on Gross National Income: levy at a uniform rate established each year as part of the budgetary procedure. They account for approximately 72% of revenue.

In essence, the Union's own resources derive from States' resources.

When the European Council takes the decision on the own resources system, in relation to the necessary funding for

NG-EU, the conditions and cases in which the Commission will be authorised to ask Member States for more resources than their relative shares will be defined (even if it is then said that these contributions will be compensated). The amount of additional resources to be paid by the countries is therefore left to a later decision.

However, some clarifications are made which demonstrate the persistence of a very weak Community budget idea:

a) Before requesting these resources, the Commission will seek to exercise active liquidity management, including through short-term funding on capital markets; "Only if such measures were not to generate the necessary liquidity, the Commission could provisionally call more resources from Member States as last reserve";

b) the amount of additional resources that can be requested from Member States each year is limited to their share of the own resources ceiling (0.6% of GNI).

Some more precise content is introduced on the Own Resources mentioned in the MFF; it is expected that in the coming years the Union will work on a reform of the Own Resources System and introduce new own resources:

- a new own resource based on non-recycled plastic waste, from 1 January 2021; (a kind of plastic tax? Perhaps not the ideal solution at a time when disposable plastic packaging has proved its importance in preventing the spread of contagion)
- the Commission will present (in the first half of 2021) proposals for a carbon adjustment mechanism at the border; (i.e. will products with the most significant carbon footprint be taxed? And why not also tax products made in countries that do not meet a certain level of social standards, such as wages, workers' rights, etc.)?
- to a digital levy (This doesn't mean anything).

These resources should be introduced by 1 January 2023.

In addition, the Commission is committed to presenting a proposal on an emissions trading scheme and, during the next MFF, "the Union will work on the introduction of other own resources, which could include a financial transaction tax".

As general remarks we can say that, while about environmental and digital taxes the EC use terms referring to a context of greater certainty, financial transactions are referred only to as a mere possibility. Moreover, any progressive mechanism of taxation is excluded.

Revenue from the new own resources introduced after 2021 will be used for the early repayment of NG-EU loans.

In general, it can be observed that the mechanism envisaged has almost nothing Keynesian: that is, it is not public expenditure in the Keynesian sense capable of activating a multiplier, generating additional income and then, from this increased income generated, withdrawing a certain amount of resources through taxation.

Again: are there actually extra resources and if so to what extent? 750 billion over 4 years, what proportion of EU GDP is this?

FUND DISBURSEMENT TIMES

From the point of view of the times there are very relevant contradictions. Several times in the text reference is made to the need to ensure timely intervention in the light of the urgency brought about by the COVID-19 crisis (see, for example, the following statement: "Given the need for swift deployment of the recovery support, it is important to create the right conditions for the rapid implementation of investment projects, particularly in infrastructure" etc.).

But despite these statements of principle, it is stated that "Legal commitments of a programme as topped-up by NGEU shall be made by 31 December 2023. Related payments will be made by 31 December 2026".

Therefore, in essence, resources can be committed (legal commitments) over a very long period of time (i.e. three and a half years), and the related payments settled over an even longer period (six and a half years).

Why such a long period when some States (as recognised by the document itself!) have immediate urgent need of these resources?

There is also a significant difference between when these resources will be committed (31 December 2023) and when they can actually be spent (31 December 2026).

Such a long period of time, which certainly does not correspond to the urgencies of several States, could open the door wide to the use of the ESM, which would become the only instrument that can be concretely activated to obtain funding. As is well known, the ESM provides for the activation of "conditionality". With the mockery that the resources made available in 2026 could be used to repay loans granted via the ESM.

These perplexities increase if the NG-EU time schedule is taken into account. The document provides that: "70% of the grants provided by the RRF (Recovery and Resilience Facility) shall be committed in the years 2021 and 2022. The remaining 30% shall be fully committed by the end of 2023. As a rule, the maximum volume of the loans for each Member State will not exceed 6.8% of its GNI".

But it is in terms of concrete financing that the biggest problems arise as "The prefinancing for the RRF will be paid in 2021 and should be 10%".

So of the recovery and resilience fund (672.5 billion), only 10% should be available in 2021.

WHAT TO DO WITH RESOURCES?

Of the 750 billion in total mentioned in the Conclusions, the recovery and resilience facility is allocated €672.5 bn., of which loans for €360 bn. and grants for €312.5 bn.

The other resources are allocated to Community programmes:

- REACT-EU: € 47.5 bn.
- Horizon Europe: €5 bn.
- InvestEU: €5.6 bn.
- Rural Development: €7.5 bn.
- Just Transition Fund (JTF): €10 bn.
- RescEU: €1.9 bn.

It is not correct, therefore, to say that the amount of the so-called "Recovery Fund" is €750 bn; its amount is €672.5 bn. The rest are resources intended to support EU programmes provided for in the MFF, i.e. additional resources to what is set out in the MFF.

The figures given in the above list therefore represent what needs to be added to the allocations for each specific programme. The difference with the "Recovery and Resilience Facility" is that their use, i.e. the objectives to be achieved, are set at Community level, whereas the first instrument is accessed through the national plans we will see in the next paragraph.

REACT-EU is the second most significant fund (47.5 billion) after the NG-EU; it provides funding to support preserving jobs, including through short-time work programmes and support for the self-employed. The funds can also be used to support job creation and measures for youth employment, health systems and the provision of working capital and investment support for small and medium-sized enterprises (including in the tourism and culture sectors). The additional support will also serve to invest in the European Green Deal and the digital transition, as a reinforcement of the significant investment in those sectors that is already taking place through EU cohesion policy.

Horizon Europe is essentially a support programme for the research, development and innovation sector.

The InvestEU Fund is an EU investment support mechanism, it aims to mobilise public and private investment within the EU that meets the additionality criterion, thereby remedying market failures and sub-optimal investment situations.

The Rural Development Fund is dedicated to the agricultural and forestry sector.

The Just Transition Fund is a mechanism introduced to address the social and economic consequences of the objective of achieving climate neutrality in the EU by 2050.

Finally, RescEU aims to support the purchase of aircraft and helicopters for firefighting, and to improve disaster prevention and preparedness measures. RescEU will also be able to take action in response to medical, chemical, biological, radiological and nuclear emergencies.

The use of wording such as, for example, "research, development and innovation sector" (Horizon Europe) and "remedying market failures and sub-optimal investment situations" (InvestEU), implies that these policies will once again be "horizontal" (neo-liberal approach).

CONDITIONS FOR ACCESS TO MEASURES

First of all, how many resources are the various European countries entitled to?

Nowhere in the Conclusion document is the figure to which the various countries would be entitled, each for its own share, established. That is, no economic quantification is made for any country.

The document states that the criterion for the allocation of resources of the Recovery and Resilience Facility for the period 2021-2022 "is established in accordance with the Commission's proposal".

In the Commission's proposal (2.6.2020 COM(2020) 408 final/3), it is stated that the calculation of the maximum contribution that can be allocated to each State will take into account three parameters: population, the inverse of GDP per capita and the average unemployment rate of the last 5 years compared to the European average.

In 2023 conditions change partially, in fact the document states that the criterion of unemployment "is replaced, in equal proportion, by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021 and will be calculated by 30 June 2022".

Specifically, the share of each country is calculated as the product of three indicators. The product of these three indices provides the allocation key for each country; the sum of the 27 indices is then normalised to 1 to obtain the so-called allocation key. The three indicators are:

- Index of GDP per capita: the inverse of 2019 GDP per capita in relation to the EU average;
- Unemployment index: the average unemployment rate 2015-2019 in relation to the EU average
- Population index: the population in 2019 as a percentage of the total EU population.

To avoid over-concentration of resources towards weaker countries, some corrections have been introduced:

- The GDP index cannot exceed 150% of the European average. This reduces the contribution made to the poorest countries.
- The unemployment indicator cannot exceed 150%. Countries with relative unemployment rates higher than this threshold will therefore see the contribution received reduced.
- For countries with GDP per capita above the European average, the unemployment indicator may not exceed 75%. No employment support is therefore foreseen for "rich" countries. Therefore, countries with a GDP above the European average, but which at the same time may have high unemployment rates, will see their access to resources restricted.

All this has been introduced in order to avoid a substantial part of resources going to the countries with the most serious social problems: once again, Europe has put political balances between the Member States before social concerns.

To access the resources of the Recovery and Resilience Facility, Member States must prepare national plans setting out the Member State's reform and investment programme for the period 2021-2023.

Alongside (indeed, before!) the term "investments" the term "reforms" has been inserted. Which reforms are they? The answer is clear: those resulting from the famous Recommendations sent to the Member States.

These recovery and resilience plans will be assessed by the Commission within two months of their submission: in the assessment, the highest score is given based on consistency with the country-specific recommendations, as well as the strengthening of the Member State's growth potential, job creation and social and economic resilience. The actual contribution to the green and digital transition is also a prerequisite for a positive assessment.

The assessment of recovery and resilience plans must be approved by the Council, by qualified majority on a proposal from the Commission, and the positive assessment of payment claims will be conditional on the satisfactory achievement of the relevant intermediate and final targets, which will be assessed by the Commission on the basis of the opinion of the Economic and Financial Committee.

If one or more Member States consider that there are serious deviations from the satisfactory achievement of the relevant intermediate and final targets, they may request that the President of the European Council refer the matter to the next European Council. This process should normally not take more

than three months after the Commission has requested the opinion of the Economic and Financial Committee.

Therefore, the conditions for access to funding under this instrument exist.

Obviously, the game of conditionality will also be a political game, played between alliances and balances of power between the various States.

As general remarks: conditionality should be set based on things to do and on the actual use of these resources: i.e. with territorial control structures on how these resources are used, not on the respect of the parameters that historically are imposed by the EU level.

Before moving on to the analysis of some examples of Recommendations, let's look at another issue that, strangely enough, has received little attention from the mass media: that of discounts to so-called "frugal countries".

DISCOUNTS TO 'FRUGAL' COUNTRIES

"For the period 2021-2027, lump-sum corrections will reduce the annual GNI-based contribution by Denmark, the Netherlands, Austria and Sweden, and in the context of the support for the recovery and resilience, as well as by Germany. The Member States concerned shall benefit from a gross reduction in their annual Gross National Income-based contribution in 2020 prices of:

- Denmark: EUR 377 million;
- Germany: EUR 3,671 million;
- Netherlands: EUR 1,921 million;
- Austria: EUR 565 million;
- Sweden: EUR 1,069 million".

These are the discounts requested and obtained by the frugal countries, totalling 7.6 billion a year – over 53 billion over the whole period.

These discounts will have to be financed by the other Member States on the basis of their GNI. The following table, taking as reference the estimate provided by AMECO about GNI in 2021, estimates the participation of the different countries, in percentage and absolute terms.

As can be seen, the most important shares will be borne by the largest countries: France (29.72%), Italy (21.09%) and Spain (14.65%). These proportions correspond, over the whole period considered, to a disbursement of 15.8 billion for France, 11.2 billion for Italy, and 7.8 billion for Spain.

This consequence seems to be very negative in particular in the case of Spain and Italy, i.e. two peripheral, large countries with strong social and economic problems.

***Table**: Distribution of discount funding to frugal countries. Percentage, total for one year, total for 7 years*

Countries	Percentage	total for one year	total for 7 years
France	29,72%	2,260	15,819
Italy	21,09%	1,603	11,223
Spain	14,65%	1,113	7,794
Poland	5,96%	0,453	3,173
Belgium	5,84%	0,444	3,110
Ireland	3,19%	0,242	1,696
Finland	2,88%	0,219	1,532
Romania	2,66%	0,202	1,414
Portugal	2,50%	0,190	1,332
Czechia	2,42%	0,184	1,290
Greece	2,17%	0,165	1,157
Hungary	1,61%	0,123	0,858
Slovakia	1,14%	0,087	0,606
Bulgaria	0,74%	0,056	0,393
Croatia	0,61%	0,047	0,327
Lithuania	0,58%	0,044	0,309
Slovenia	0,58%	0,044	0,307
Luxembourg	0,55%	0,042	0,292
Latvia	0,37%	0,028	0,199
Estonia	0,34%	0,026	0,179
Cyprus	0,25%	0,019	0,134
Malta	0,15%	0,011	0,079

RECOMMENDATIONS

Since, as seen in the previous paragraphs, access to the RRF's resources will be conditional on compliance with the

country-specific Recommendations, it seems useful to look at some examples.

We will see, in detail, the Italian case; but also – summarised – the cases of Greece, France, Spain and Portugal.

The Italian case is explained in detail so as to demonstrate how the European institutions act, through a multiplicity of documents, when they have to define the objectives they intend to set for the various countries. Space does not allow them to do the same for all the other countries, but it would be appropriate if scholars from other countries did the same for their own country.

As regards Italy, the Council Recommendations (COM (2020) 512 final) of 20 May conclude that "The Commission's analysis led it to conclude that Italy is experiencing excessive macroeconomic imbalances. In particular, high government debt and protracted weak productivity dynamics imply risks with cross-border relevance".

"Overall, the measures taken by Italy are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak", however, "The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium-term".

It seems useful to recall the above, i.e. that on 20 March 2020, the Commission adopted a communication on the activation of the general safeguard clause of the Stability Pact, sharing with the Council its opinion: given the severe economic downturn expected as a result of the pandemic, the current conditions allow the activation of the clause, which allows a temporary deviation from the adjustment path towards the medium-term budgetary objective, provided that medium-term budgetary sustainability is not compromised.

In other words, "the general safeguard clause does not suspend the procedures of the Stability and Growth Pact".

On 20 May 2020, the Commission published another report in response to Italy's failure to comply with the debt rule in 2019 and the expected breach of the 3% deficit threshold in 2020.: "Overall, the analysis suggests that there is no sufficient evidence to conclude that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is or is not complied with, while the deficit criterion is not fulfilled".

The document goes on to point out that, while the recommendations focus on how to address the socio-economic impact of the pandemic and facilitate economic recovery, the 2019 country-specific recommendations (adopted by the Council on 9 July 2019) are quite different, because "Also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis".

In the part of the document dedicated to the actual Recommendations, we read that Italy is invited to: "In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Strengthen the resilience and capacity of the health system, in the areas of health workers, critical medical products and infrastructure. Enhance coordination between national and regional authorities".

The Commission Report (SWD(2020) 511 final) accompanying the Council's Recommendations document is worrying in several passages.

Given the weak macroeconomic outlook and the challenge of sustainability, the Commission considers that for Italy it is crucial to increase productivity and potential growth in order to reduce the public debt/GDP ratio and correct macroeconomic imbalances. To this end, the Commission considers that our country must implement ambitious structural reforms, prudent fiscal policies and well-targeted investments.

Among the most significant complaints about the failure to implement the previous recommendations, the Commission document mentions the absence of any progress in two areas: 1) the reduction of the weight of old age pensions in public spending and the creation of margins for other social and growth-friendly public spending; 2) the removal of restrictions on competition also through a new annual competition law.

The need to remove barriers to competition is also stressed, especially in the services sector – in particular by introducing competitive procedures (i.e. neo-liberal reforms) for the management of public services (water, waste, energy, gas distribution, public transport, etc.). For the latter, the Commission advocates a new legislative initiative to promote the efficiency and quality of local public services, including the prioritisation of competitive tendering procedures over internal awards or direct subsidies.

It is made clear that Italy must approve a reform to reduce the public management of public services, so that they are entrusted to private companies through public tenders.

The Council Recommendations (COM(2019) 512 final) of 2019, which, as we have seen, maintain their validity intact, pay particular attention to both deficit and debt: "Italy is prima facie not forecast to comply with the debt rule in 2019 and 2020. Moreover, at around 132% of GDP, Italy's high public debt ratio implies that large resources are earmarked to cover debt servicing costs, to the detriment of more growth-enhancing items including education, innovation and infrastructure. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be important".

The extraordinary resources mentioned refer to privatisation processes.

Another recurring theme is pensions: "Italy's expenditure on old-age pensions, at around 15% of GDP in 2017, is among the highest in the Union, and is expected to increase in the medium term due to the worsening old-age dependency ratio. The 2019 budget and the decree law implementing the new early retirement scheme in January 2019 backtrack on elements of past pension reforms, worsening the sustainability of public finances in the medium term. These new provisions will further increase pension expenditure in the medium term. […] The high public spending for old-age pensions restrains other social and growth-enhancing spending items like education and investment, and limits margins to reduce the overall high tax burden and the high public debt. Furthermore, broadening the possibility for early retirement might negatively affect labour supply, in a context where Italy is already lagging behind the EU average for the participation of its older workers (55-64) in employment, thereby hampering potential growth and worsening the sustainability of public debt. To limit the increase in spending on pensions, previously legislated pension reforms to curb implicit liabilities arising from population ageing should be fully implemented".

This paragraph highlights three things, which are very indicative of the European approach:

- public funds dedicated to the payment of pensions are put in competition with other social services, such as education or public investment; or, even worse, it is said that it is the fault of pensioners if Italy cannot lower its tax burden or public debt;
- lowering the retirement age would negatively affect the labour supply, when in Italy the problem is exactly the opposite: high rates of youth unemployment;
- in order to solve the problem of pension expenditure, Italy would have to fully implement the reforms of the Mario Monti Government, which envisage reaching the age of 70 to be able to retire (with low economic benefits).

In this document there is also a reference to the collective bargaining system in the field of trade union relations: "The initially envisaged reform of the collective bargaining framework aimed to bring wages and salaries more in line with economic conditions at the regional and firm level", the objective, therefore, seems to be to push in the direction of overcoming the National Collective Labour Contract, in favour of decentralised bargaining (i.e. at the level of each individual company).

Weakening the National Contract in favour of the company or territorial one means weakening the bargaining power of workers and their organisations.

The continuous references to improving the functioning of the Public Administration have a clear objective: "Increasing the efficiency of Italy's public administration and its responsiveness to business would have a positive impact on the business environment, investment and the ability of firms to exploit innovation opportunities".

Therefore, the public administration, according to the EU institutions, must be reformed to be functional to the activities of companies.

Among the final recommendations, with regard to public spending, in first place we find the need to: "Ensure a nominal reduction of net primary government expenditure of 0.1% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio […] Implement fully past pension reforms to reduce the share of old-age pensions in public spending and create space for other social and growth-enhancing spending".

Equally worrying considerations are expressed with regard to Spain, Portugal and also France.

Let us compare the country-specific recommendations expressed in 2019 and 2020 on three very important issues: the state of public finances (deficit, debt, compliance with the parameters of the Stability and Growth Pact; pension systems, privatisation/liberalisation/deregulation).

Recommendations on deficit, debt, compliance with the parameters of the Stability and Growth Pact

France

2019	Ensure that the nominal growth rate of net primary expenditure does not exceed 1.2% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Achieve expenditure savings and efficiency gains across all sub-sectors of the government, including by fully specifying and monitoring the implementation of the concrete measures needed in the context of Public Action 2022. (…) In 2020, in view of France's general government debt ratio above 60% of GDP and projected output gap of 0.7%, the nominal growth rate of net primary government expenditure should not exceed 1.2%, in line with the structural adjustment of 0.6% of GDP stemming from the commonly agreed adjustment matrix of requirements under the Stability and Growth Pact. According to the Commission 2019 spring forecast under unchanged policies, there is a risk of a significant deviation from that requirement in 2020. France is prima facie not forecast to comply with the transitional debt rule in 2019 and 2020. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be important.
2020	In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. (…) Based on the Commission 2020 spring forecast under unchanged policies, France's general government balance is forecast at -9.9% of GDP in 2020 and -4.0% in 2021. The general government debt ratio is projected to reach 116.5 % of GDP in 2020 and 111.9% in 2021. On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to France's non-compliance with the debt rule in 2019 and the planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit and debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 are not fulfilled.

Greece

2019	Achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018. (…) The Commission estimates the fiscal impact of these measures to exceed 1.0% of GDP in 2019 and subsequent years. It is also assessed that the adoption of these new measures poses a risk for the agreed primary surplus target, as monitored under the enhanced surveillance framework and set by the Decision (EU) 2017/1226 of 30 June 2017. Moreover, the new measures are expected to reduce the structural balance, raising concerns over the achievement of the medium-term budgetary objective in 2020. (…) While general government debt is forecast to remain on a downward path, some risks could be posed to compliance with the debt reduction benchmark.
2020	In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. (…) Based on the Commission 2020 spring forecast under unchanged policies, Greece's general government deficit is forecast at 6.4% of GDP in 2020 and 2.1% in 2021. The general government debt ratio is projected to reach 196.4% of GDP in 2020 and 182.6% in 2021. On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Greece's non-compliance with the debt rule in 2019 and the planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is complied with, while the deficit criterion is not fulfilled.

Italy	
2019	Ensure a nominal reduction of net primary government expenditure of 0.1% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. (…) In 2020, in view of Italy's general government debt ratio above 60% of GDP and projected output gap of -0.1%, the net primary government expenditure should decline by 0.1% in nominal terms, in line with the structural adjustment of 0.6% of GDP stemming from the matrix of requirements under the Stability and Growth Pact. Based on the Commission 2019 spring forecast under unchanged policies, there is a risk of a significant deviation from the requirement in 2020. Italy is prima facie not forecast to comply with the debt rule in 2019 and 2020. Moreover, at around 132% of GDP, Italy's high public debt ratio implies that large resources are earmarked to cover debt servicing costs, to the detriment of more growth-enhancing items including education, innovation and infrastructure. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be important.
2020	In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. (…) Based on the Commission 2020 spring forecast under unchanged policies, Italy's general government balance is forecast at -11.1% of GDP in 2020 and -5.6% in 2021. The general government debt ratio is projected to reach 158.9% of GDP in 2020 and 153.6% in 2021. On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Italy's non-compliance with the debt rule in 2019 and the planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that there is no sufficient evidence to conclude that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is or is not complied with, while the deficit criterion is not fulfilled.

Portugal	
2019	Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio. (…) Based on the Commission 2019 spring forecast, this is consistent with a maximum nominal growth rate of net primary government expenditure of 1.5%, corresponding to an annual structural adjustment of 0.5% of GDP. Based on the Commission 2019 spring forecast under unchanged policies, there is a risk of a significant deviation from that requirement in 2020. At the same time, Portugal is forecast to comply with the transitional debt rule in 2019, as a result of the allowed annual deviation of 0.25%, but is prima facie not projected to comply with the debt rule in 2020. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be important.
2020	In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. (…) Based on the Commission 2020 spring forecast under unchanged policies, Portugal's general government deficit is forecast at 6.5% of GDP in 2020 and 1.8% in 2021. The general government debt-to-GDP ratio is projected to peak at 131.6% in 2020, before decreasing to 124.4% in 2021. On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty for Portugal due to the projected breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

Spain	
2019	Ensure that the nominal growth rate of net primary government expenditure does not exceed 0.9% in 2020, corresponding to an annual structural adjustment of 0.65% of GDP. Take measures to strengthen the fiscal and public procurement frameworks at all levels of government. (…) Use windfall gains to accelerate the reduction of the general government debt ratio. (…) On 13 July 2018, the Council recommended Spain to ensure that the nominal growth rate of net primary government expenditure would not exceed 0.6% in 2019, corresponding to an annual structural adjustment of 0.65% of GDP. Based on the Commission 2019 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019. (…) In 2020, in view of Spain's general government debt-to-GDP ratio, which is above the Treaty reference value of 60% of GDP, and projected positive output gap of 2.0% of GDP, nominal net primary government expenditure should not grow in 2020 in line with the structural adjustment of 1.0% of GDP stemming from the commonly agreed adjustment matrix of requirements under the Stability and Growth Pact. (…) According to the Commission 2019 spring forecast, under unchanged policies, there is a risk of a significant deviation from the required fiscal adjustment in 2020. In addition, Spain is not projected to comply with the requirements of the transitional debt rule in 2019 and 2020. Overall, the Council is of the opinion that the necessary measures should be taken as of 2019 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be important.
2020	In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. (…) Based on the Commission 2020 spring forecast under unchanged policies, Spain's general government balance is forecast at -10.1% of GDP in 2020 and -6.7% in 2021. The general government debt ratio is projected to reach 115.6% of GDP in 2020 and 113.7% in 2021. On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Spain's non-compliance with the debt rule in 2019 and the planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit and debt criteria as defined in the Treaty and in Regulation (EC) No 1467/1997 are not fulfilled.

As can be seen from the table, in both years the European Commission's observations are very focused on deficit and debt levels and, therefore, on compliance with the parameters of the Stability and Growth Pact. Obviously, the Recommendations are more "softened" in 2020, but in all cases it is stressed that "When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability".

In 2020 it sounds quite contradictory to recall the need to make investments in the health system, in welfare, as well as to promote investments in general when the European Commission continues to maintain a very strict attitude towards public spending.

So all the statements about the need to strengthen investments appear as mere "petitions of principle", since it is almost impossible to make investments in a regime of financial austerity.

Please bear in mind that in both 2020 and 2019 the observations made by the European Commission on the pension system are very worrying, as we can see from the following table.

Recommendations about pension systems

Spain	(2019) A continuation of the relinking of pension increases to inflation (as decided in 2018 and 2019) and the postponement of the sustainability factor would require compensatory measures to ensure the sustainability of the pension system in the medium to long term. Moreover, action would be needed to address both the main challenge of the adequacy of future retirees' incomes and the length and completeness of their working careers in a context of high unemployment and widespread use of temporary contracts and part-time employment. (2020) Social protection expenditure remains highly oriented towards older people, and the level of expenditure on pensions is set to increase significantly in the medium to long term, should the announced departures from the 2013 pension reform be made permanent and no adequate compensatory measures taken. The difficult economic and social context resulting from the pandemic instead calls for intergenerational solidarity in favour of the younger generations.
Italy	Italy's expenditure on old-age pensions, at around 15% of GDP in 2017, is among the highest in the Union, and is expected to increase in the medium term due to the worsening old-age dependency ratio. The 2019 budget and the decree law implementing the new early retirement scheme in January 2019 backtrack on elements of past pension reforms, worsening the sustainability of public finances in the medium term. These new provisions will further increase pension expenditure in the medium term. Between 2019 and 2021, the new early retirement scheme ('quota 100') will allow people to retire at age 62 if they have paid 38 years of contributions. In addition, the scope of the existing provisions for early retirement has been extended, including by suspending until 2026 the indexation to life expectancy of the required minimum contribution, which past pension reforms had introduced. For those provisions, the 2019 budget earmarked funds worth 0.2% of GDP in 2019 and 0.5% of GDP in 2020 and 2021, but additional costs are also expected in the following years. The high public spending for old-age pensions restrains other social and growth-enhancing spending items like education and investment, and limits margins to reduce the overall high tax burden and the high public debt. Furthermore, broadening the possibility for early retirement might negatively affect labour supply, in a context where Italy is already lagging behind the EU average for the participation of its older workers (55-64) in employment, thereby hampering potential growth and worsening the sustainability of public debt. To limit the increase in spending on pensions, previously legislated pension reforms to curb implicit liabilities arising from population ageing should be fully implemented.
France	(2019) The planned pension reform could help to decrease the general government debt over the medium term and therefore reduce debt sustainability risks. The budgetary equilibrium of the pension system is highly dependent on macroeconomic assumptions. According to the latest annual report by France's Pensions Advisory Council (Conseil d'orientation des retraites), pension expenditures were at 13.8% of GDP in 2017 and are projected to reach 13.5% in 2022, before remaining in a range between 11.6% and 14.4% by 2070 depending on the growth rate assumed for the evolution of GDP and employment over time. (…) Reform the pension system to progressively unify the rules of the different pension regimes, with the view to enhance their fairness and sustainability.
Portugal	(2019) Portugal's public finances are under continuous pressure from adverse demographic trends, notably the ageing population, with negative consequences, especially for the sustainability of the pension and health systems. While the past reforms improved the long-term sustainability of the pension system, ongoing special pension increases and early retirement reforms have entailed further discretionary increases in pension spending on top of the underlying upward trend driven by ageing.

The Recommendations are equally worrying in the field of competition: the European Commission's focus continues to be on public services managed by public enterprises, the need to proceed with privatisation, liberalisation and deregulation of the largest number of sectors (from public services to the professions), etc.

Recommendations about privatisations/liberalisations/deregulations

Greece	(2019) Greece made a commitment in the Eurogroup of 22 June 2018 to continue all key reforms adopted under the programme until they are fully completed. Greece also committed to implementing specific actions related to fiscal and fiscal-structural policies, social welfare, financial stability, labour and product markets, privatisation and public administration. (…) The reform of both the gas and electricity markets should strive to take advantage of these new infrastructure opportunities. (2020) There are country-specific risks underlying the budgetary projections, namely the pending litigation and public service obligations.
Italy	(2019) The 2015 public administration reform also envisaged a new framework reforming the management of local public services. However, in November 2016 Italy's Constitutional Court declared the procedure followed to adopt a number of legislative decrees, including the one on local public services, to be unconstitutional. A new legislative initiative is thus needed to promote the efficiency and quality of local public services, including by prioritising competitive bids over in-house solutions or direct grants. (…) These projections assume privatisation proceeds of 1% of GDP in 2019 and 0.3% in 2020. The macroeconomic scenario underpinning those budgetary projections is plausible. However, in recent years the VAT hikes legislated as 'safeguard clauses' have been systematically repealed without adequate alternative financing measures, and privatisation targets have been underachieved. (2020) To facilitate the business responsiveness of the public administration, sectoral regulations need to be improved and simplified, while remaining barriers to competition need to be removed.
Portugal	(2019) Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring. (…) Regulatory and administrative restrictions on business and professional services prevail, raising concerns about competition, price levels, innovation and the quality of services
France	(2019) The Innovation and Industry Fund ('Fonds pour l'innovation et l'industrie'), financed through privatisations, will also help to provide funding for artificial intelligence. (…) Reduce regulatory restrictions, notably in the services sector. (2020) Further investments in energy infrastructures, including in electricity interconnections, would contribute to improve integration of the internal Union energy market, while introducing more competition and facilitating the deployment of renewable energy.

Guidance to Member States RRF

The Guidance for Member States, published on 17.9.2020 (SWD(2020) 205 final) is an important document from which it is useful to mention some passages.

The Guidance refers first of all to two points (15 and 16) of the Proposal prepared by the Commission on 28.5.2020 (COM(2020) 408 final).

These points very clearly state the following.

"The specific objective of the Facility should be to provide financial support with a view to achieving the milestones and targets of reforms and investments as set out in recovery and resilience plans".

REFORMS

More specifically, it states that "To ensure its contribution to the objectives of the Facility, the recovery and resilience plan should comprise measures for the implementation of reforms and public investment projects through a coherent recovery and resilience plan. The recovery and resilience plan should be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, with the national reform programmes, the national energy and climate plans, the just transition plans, and the partnership agreements and operational programmes adopted under the Union funds".

Therefore, the reforms prescribed by the Country Specific Recommendations are considered as an essential part of the implementation of the recovery and resilience plan: the observations of concern moved in the previous paragraph are thus strengthened.

The link with the European Semester is expressly stated recalling two articles of the Proposal:

- Article 15(3)(a): "an explanation of the way the relevant country-specific challenges and priorities identified in the context of the European Semester are expected to be addressed".
- Article 16(3)(a): "whether the recovery and resilience plan is expected to contribute to effectively address challenges identified in the relevant country-specific recommendations addressed to the Member State concerned or in other relevant documents officially adopted by the Commission in the European Semester;".

According to the Guidance document, therefore: "Member States should look at the full set of country-specific recommendations addressed to them by the Council, in particular under the 2019 and 2020 Semester cycles. Unless the Commission has assessed the progress with these recommendations as 'substantial progress' or 'full implementation', all country-specific recommendations are considered to be relevant. Member States should provide a detailed explanation of how the country-specific recommendations are addressed by the proposed measures".

Guidance also invites states to specify the priority of their reforms.

One of the priorities is as follows: "Reforms linked to improving the business environment".

Therefore, the objective of the reforms that the European Commission has in mind is clear: to continue with the line of rigour in public accounts (as seen above) and to create the best possible environment for business activity, with all that this objective entails in social terms.

The Guidance states that the National Plans must have two components: reforms and investments, and Member States are invited to present each component separately; for each component, they must detail the investments and reforms and their expected contribution to the objectives of the Facility; the related milestones, targets and timeline; and their financing and costing.

A reform is defined as "an action or process of making changes and improvements with significant impact and long-lasting effects (…) The aim of a reform is to structurally change parameters, address necessary drivers, or remove obstacles or other hindrances to the proper performance or to the fundamentals of fair and sustainable growth and wellbeing. Reforms should also improve the framework conditions in areas such as quality of public institutions and services, as well as the business environment, education or social protection. There are therefore

important synergies between reforms and investments covered under the Facility".

As seen, therefore, the objective of improving the business environment is very recurrent and the fear is that all reforms, despite the declared social objectives, are bent to it.

GENERAL OBJECTIVES

Among the objectives of the National Plans is also indicated the need for them to be consistent with the European Green Deal and the Digital Agenda, implementing measures that are relevant for the green and digital transitions.

As General Objectives, the Guidance lists the following:

- Promoting the Union's economic, social and territorial cohesion
- Strengthening economic and social resilience
- Mitigating the social and economic impact of the crisis
- Supporting the green and digital transitions

The first point is "Promoting the Union's economic, social and territorial cohesion", on the base on Article 175(3) of (TFEU): as such, the Facility should promote the Union's economic, social and territorial cohesion by improving the resilience and adjustment capacity of the Member States, and by mitigating the socio-economic impact of the COVID crisis.

This general statement should find a more precise definition of clear and precise objectives: for example, it is not possible to continue with policies focused on upskilling and reskilling, on improving labour market participation (what does it mean?), on strengthening the link between education and labour market, etc.

In order to promote greater social cohesion, it must be clearly stated that the priority objectives are the creation of new jobs, overcoming precariousness, mini-jobs or underpaid jobs through public regulation, protection of workers from redundancies, ensuring adequate wages and pensions. Obviously – from our point of view – these objectives are achievable through a new strong and different regulation established by the States; otherwise the risk is to continuously leave the solution of these problems to the market (a market that has largely failed).

The second one is the "Strengthening economic and social resilience". This point states that "The COVID-19 crisis has put to test the capacity of Member States and the Union to cope with large and unexpected shocks. The crisis is multidimensional. The pandemic has revealed the vulnerabilities of health systems to cope with high contagion rates and supply disruptions. The resulting economic crisis is affecting Member States' capacity to grow while exacerbating existing, and possibly creating new, macroeconomic imbalances. There is also the need to strengthen the resilience of some critical supply chains especially for sectors most exposed to external shocks".

Again, the statements of principle should be reflected/implemented in clear objectives: health systems are vulnerable because over the years they have been privatised and public funds reduced; supply chains, as we have seen above, are the result of years of relocation and fully liberalised foreign direct investment.

If Europe wants to overcome the problem of supply chain disruption, it must establish a clear programme of industrial policies to rebuild the European industrial structure, in a balanced way between the different Member States and should establish new rules of international trade.

The third one is "Mitigating the social and economic impact of the crisis", which states "achieve a fast and robust recovery (….) in relation to its dimensions of equal opportunities and access to the labour market, fair working conditions and social protection and inclusion".

But labour market conditions are deteriorated just because a neo-liberal approach dominates: the European Commission insists on weakening the National Labour Agreements, there is no legislation on working conditions, there are no social obligations for companies, etc.

Finally, the fourth point is focused on "Supporting the green and digital transitions": this implies the part related to investments which we will see in the next chapter.

INVESTMENTS

About the green and digital transitions, this paper states that "the Recovery and Resilience Facility is designed to foster a

sustainable and inclusive recovery and promote the green and digital transitions. Member States should explain how the plans are coherent with the priorities of the European Green Deal and those set out in "Shaping Europe's digital future", in particular how the plan supports actions in full respect of the climate, environmental, social and digital priorities of the Union and the 'do no significant harm principle', and how each plan will concretely achieve the 37% climate mainstreaming target. Furthermore, they should demonstrate consistency with their National Energy and Climate Plan (or updates thereof). On digital, the Commission proposes that each recovery and resilience plan includes a minimum level of 20% of expenditure related to digital. Member States should explain how the implementation their plan will contribute to the achievement of this target. For both dimensions, Member States are also invited to explain how the proposed plan, in general, will ensure that the workforce will be appropriately re- and upskilled".

This point is very important and is directly linked to the new investments that the Facility would like to stimulate and finance: the reduction of greenhouse gas emissions, share of renewable energy,

the energy efficiency and energy system integration, new clean energy technologies and the electricity interconnection etc.

Also environmental goals such as the sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention control, and protection and restoration of healthy ecosystems etc. call for new, strong investments.

The same things about the digital transformation: improving connectivity, a wide-spread deployment of very high-capacity networks, fibre and 5G connectivity.

These are objectives that can be shared and which can be a field for new investment and job creation, but the questions that the European Commission should answer are as follows:

- Which European companies are producers of clean energy technologies and plants?
- Which European companies produce ICT and TLC technologies for the digital transition?
- How much of the production of these technologies has been relocated abroad? It is not enough that there are companies capable of providing energy or digital services, but we need companies that industrially produce the necessary technologies and equipment;
- In which European countries are these companies located? If there is no balanced distribution of these companies, there is a risk that the imbalances between countries will be further aggravated.
- Are Member States given the opportunity to set up public companies to implement these technologies? Otherwise, if only public procurement is used the risk is that these contracts may be awarded to multinational companies that can move these products worldwide.

The same observations can be made with regard to "Flagship Initiatives", because Member States are invited to provide information if their national recovery and resilience plan will contribute to the seven European Flagships (Communication on the 2021 Annual Sustainable Growth Strategy):

- Power up: Support the building and sector integration of almost 40% of the 500 GW of renewable power generation needed by 2030, support the instalment of 6 GW of electrolyser capacity and the production and transportation of 1 mio. tonnes of renewable hydrogen across the EU by 2025.
- Renovate: By 2025, contribute to the doubling of the renovation rate and the fostering of deep renovation.
- Recharge and refuel: By 2025, aim to build one mio. of the three mio. charging points needed in 2030 and half of the 1000 hydrogen stations needed.
- Connect: Ensure that by 2025 there is the widest possible uninterrupted 5G coverage for all areas.
- Modernise: By 2025, ensure the provision of a European digital identity (e-ID) and public administrations should be providing interoperable, personalised and user-friendly digital public services.
- Scale-up: By 2025, double the production of semi-conductors in Europe, to produce 10 times more energy-efficient processors and to double the share of EU companies using advanced cloud services and big date (from 16% today).

As discussed, these are important and shared objectives, but the technologies needed to achieve them (power

generation, technologies linked to hydrogen, ICT and TLC tools, semi-conductors, charging points, etc.) from which companies will be built, and where?

To start answering this question we have calculated the export/import of the goods needed to make both ecological and digital transition possible.

The commercial imbalances of Europe

METHODOLOGY AND DATA

The data we used are those of the Comtrade Database (UN Comtrade Database).

We have aggregated the goods needed for each type of transition using two classification tools.

The first classification was drawn up by UNCTADstat (United Nations Conference on Trade and Development Statistics): "ICT goods categories and composition (HS 2017)". This classification obviously concerns digital transition and includes four macro-types of products:

- Computer and peripheral equipment, which involves 17 families of products: for example, data processing machines, processing units, input/output units, storage units, other office machines, parts and accessories, etc.
- Communication equipment, which involves 10 families of products: for example, line telephone sets, telephones for cellular networks, base stations, communication apparatus (machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus), transmission apparatus for radio broadcasting or television, signalling apparatus, etc.
- Consumer electronic equipment, which involves 34 families of products: for example, microphones, loudspeaker, headphones and earphones, sound and video recording apparatus, radio-broadcast receivers, monitors, projectors, reception apparatus, etc.
- Electronic components, which involves 27 families of products: for example, semi-conductors media, printed circuits, transistor, tubes, valves, electronic integrated circuits; processors and controllers, memories, parts of electronic integrated circuits etc.; and Miscellaneous with other 6 families.

The second classification derives from a document of the European Commission (JCR, EU Energy Technology Trade) and classifies these goods as follows (we included only those related to "clean energy"):

- Energy storage (accumulators);
- Heating;
- Hydropower (hydraulic turbines and water wheels);
- Insulation (articles of heat-insulating, multiple-walled insulating units of glass, etc.);
- Smart meters (electricity meters);
- Solar photovoltaic;
- Solar thermal;
- Wind (Generating and Electric sets wind-powered, towers and lattice masts).

For the goods entering each type of transition we have calculated:

- the total exports and imports related to each transition; and the difference (to show whether a country is an exporter or importer of these goods)
- the import and export volumes for each macro-type/family of products; and the difference (to show whether a country is an exporter or importer of these goods)
- the ratio between exports and imports.

The relationship between exports and imports is a crude indicator that tells us to what extent a country is unbalanced towards exports or imports.

As the ratio is calculated as Exports/Imports:

- if the ratio = 1, there is balance between exports and imports (the two values are equal);
- if the ratio > 1, the country is a net exporter: obviously the higher the ratio the more the country is a net exporter for that commodity (or that set of goods);
- if the ratio < 1, the country is a net importer: obviously the higher the ratio the more the country is a net importer for that commodity (or that set of goods).

We have calculated these values, for the year 2019, for the following areas:

- EU-28;
- Italy;
- France;
- Spain;
- Portugal;
- Greece;
- Germany.

We have chosen the countries of the Southern Periphery, the "core" of Europe (Germany), and France.

Obviously, this exercise can also be repeated for other countries or blocks of countries, e.g. Visegrad countries etc.

For each category of goods and for each country we have calculated the values indicated above; for reasons of space and synthesis we will limit ourselves to publishing the most significant calculations.

The ratios of individual countries, as well as volumes in absolute values, cannot be compared with that of the EU-28 because the latter trades with the Rest of the World, while individual countries can also trade within the EU-28.

Surely it could also be interesting to verify the trade relations within the EU-28.

DIGITAL TRANSITION

Looking at the total goods needed for the digital transition (as defined and classified above), we see that the EU-28 has an import imbalance of €160.8 bn.

The export/import ratio is 0.38, so significantly far from 1.

The results can be summarised in the following table to also compare the differences between the various countries.

Country	Import imbalance (Billion Euro)	Ratio
EU-28	160.8	0.38
Italy	12.8	0.44
France	18.6	0.52
Spain	13.5	0.28
Portugal	3.2	0.41
Greece	1.6	0.42
Germany	30.5	0.7

As we can see from the table, the worst ratio is that of Spain; that of Germany is the best.

Another figure should be borne in mind: total German exports amount to €72.9 bn., a very high volume in respect to the other countries.

In the following table, the first column shows the total export/import imbalance for each area, while the yellow column shows each ratio.

	Computer		Communication		Consumer		Elect+Misc	
EU	-55675181413	0,3313436280	-64509311578	0,2629655333	-14267965839	0,3906344480	-26394581075	0,598615388
IT	-4314872636	0,4016147781	-5634034982	0,3764778828	-2152028360	0,3314406402	-701430272	0,813501334
FR	-9392933887	0,2941351997	-8107376870	0,3490453899	-4310786132	0,2732724644	3126084337	1,388317199
SP	-4447968770	0,2251423594	-5085055338	0,2087234545	-1936422147	0,4491543413	-2106626624	0,377262304
PO	-979448258	0,1572157491	-854024934	0,2732457073	297899738	1,4277794136	-1678159712	0,317907995
GR	-462582414	0,6352135987	-649412329	0,2292049729	-317020698	0,2282743445	-175976001	0,330313137
GE	-12361364372	0,6437330543	-9538621206	0,5943359829	-5562413167	0,5875771348	-3058217974	0,903689762

Germany has the best ratio in the Computer and Peripheral Equipment and Communication Equipment category; in Consumer Equipment it is second behind Portugal (which is a net exporter) while in Electronic Components it is second behind France (net exporter) with a ratio very close to 1 (0.9).

In the following table we can also see data on export and import volumes. Germany's export volume is higher than the total sum of exports from the other 5 countries considered (which include Italy, France and Spain, i.e. three major European countries).

TOT-EXP	TOT-IMP	TOT-Diff	TOT-Ratio	Column1
EU-28	99116014298	259963054203	-160847039905	0,3812696177
IT	10424267971	23226634221	-12802366250	0,4468066533
FR	21058685654	39743698206	-18685012552	0,5298622575
SP	5488900634	19064973513	-13576072879	0,2879049704
PO	2280245729	5493978895	-3213733166	0,4150445010
GR	1179190571	2784182013	-1604991442	0,4235321418
GE	72930878983	103451495702	-30520616719	0,7049765544

In the following tables we calculate, for each country and for each macro-category of products, data on exports and imports.

EU	Exp	Imp
computer	27589083679	83264265092
communicatio1	23016190269	87525501847
consumer	9146494975	23414460814
Elec+Misc	39364245375	65758826450
TOT	99116014298	259963054203

France	Exp	Imp
computer	3914053347	13306987234
communicatio1	4347219417	12454596287
consumer	1620991489	5931777621
Elec+Misc	11176421401	8050337064
TOT	21058685654	39743698206

Portugal	Exp	Imp
computer	182709503	1162157761
communicatior	321097033	1175121967
consumer	994286073	696386335
Elec+Misc	782153120	2460312832
TOT	2280245729	5493978895

Germany	Exp	Imp
computer	22335551858	34696916230
communicatior	13974978237	23513599443
consumer	7924746823	13487159990
Elec+Misc	28695602065	31753820039
TOT	72930878983	103451495702

Italy	Exp	Imp
computer	2895988324	7210860960
communicatio1	3401787207	9035822189
consumer	1066875584	3218903944
Elec+Misc	3059616856	3761047128
TOT	10424267971	23226634221

Spain	Exp	Imp
computer	1292400218	5740368988
communicatio1	1341339286	6426394624
consumer	1578940308	3515362455
Elec+Misc	1276220822	3382847446
TOT	5488900634	19064973513

Greece	Exp	Imp
computer	805508755	1268091169
communicatior	193110399	842522728
consumer	93773858	410794556
Elec+Misc	86797559	262773560
TOT	1179190571	2784182013

GREEN TRANSITION (ENERGY)

reporter	comm_code	commodity	Export	Import	balance	Ratio
EU-28	730820	Ironorsteel;Si	480180650	654787523	-1174606873	0,7333381183
EU-28	841011	Turbines;hydn	155114413	5602369	9912044	2,7692593972
EU-28	841012	Turbines;hydn	50450767	1474801	48975966	34,2085250820
EU-28	841013	Turbines;hydn	34078364	4166871	29911493	8,1784062910
EU-28	841090	Turbines;parts	262449762	37594415	224855347	6,9810838126
EU-28	841919	Heaters;instar	237597179	127459592	110137587	1,8640980665
EU-28	850231	Electricgenera	2530285577	250174054	2280111523	10,1141007090
EU-28	854140	Electricalappa	1737606641	8536708788	-6799102147	0,2035452637
EU-28	902830	Meters;electric	209170587	405728519	-196557932	0,5155432197
EU-28			5557333940	10023696932	-4466362992	0,5544195897

From the point of view of the green transition we have considered energy goods (therefore our calculation does not include other important sectors, such as transport).

Also in this case the EU-28 is in deficit, although less relevant than ICT goods, as the overall ratio is 0.89.

This classification, however, includes very different goods, including some very traditional ones.

So if we compute from the point of view of alternative energy technologies (hydro-electric, solar, wind, smart meters), we find a different picture, as the ratio drops significantly to 0.55.

In particular, the ratio is very low for the commercial code 854140, i.e. that relating to solar photovoltaics (diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes; mounted piezoelectric crystals).

From the point of view of the individual areas, here too we note considerable imbalances. In the following table we have calculated the volumes of exports and imports of all the goods of the energy transition (therefore, including those we have indicated as more traditional).

Country	Exports	Imports	Bala11ce	Ratio
EU-28	12417323333	13875865630	-1458542297	0,8948863923
IT	2540921029	2453540854	87380175	1,0356139067
FR	2975547026	3377076478	-401529452	0,8811014632
SP	2434299477	2525248125	-90948648	0,9639842726
PO	537840780	719403017	-181562237	0,7476209681
GR	359164537	543855879	-184691342	0,6604038880
GE	10072369208	6726545220	3345823988	1,4974060054

As can be seen, Portugal and Greece are below the European average, while Germany, as usual, is above the European average. In this case Germany is also a net exporter.

Again, the volume of German exports is impressive, in particular in relation to the volumes of other countries.

If we look at the position of the different countries in relation to clean energy technologies alone, we can once again see the leading position of Germany (Greece is not reported as data for two assets are not available).

Country	Exports	Imports	Balance	Ratio
EU-29	5557333940	10023696932	-4466362992	0,5544195897
IT	642325759	1060887559	-418561800	0,6054607329
FR	855213257	1311855994	-456642737	0,6519109269
SP	1138999072	1713369476	-574370404	0,6647714273
PO	368571226	529663151	-161091925	0,6958596710
GE	5101095672	3738263350	1362832322	1,3645629519