CEEP
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SGI PROVIDERS AND EMPLOYERS FACING THE COVID-19 OUTBREAK

THE PATH TO RECOVERY: A STRONG MFF AND AN UNPRECEDENTED INVESTMENT PLAN

Executive Summary

- The crisis triggered by the COVID-19 outbreak is expected to be amongst the most violent ever, with social consequences aggravated by its very nature. It has clearly shown how crucial **the provision of public services and SGIs, such as healthcare, water, energy, waste management, telecommunications, education, housing and transport, is to the well-being of citizens and the economic resilience of the EU.**
- The EU must play a fundamental role in coordinating the macro-economic response to the COVID-19 crisis, relying on a well-designed Multi-Financial Framework (MFF) allowing the materialisation of a fully-fledged unprecedented investment plan, as well as a dedicated Recovery Fund and related tools.
- CEEP believes that the EU institutions must step up their efforts and progress to agree on a **revamped MFF 2021-2027**, adapted to the challenge of the COVID-19 crisis, and relying on:
  - **A genuine rethinking of cohesion policy:** Cohesion policy must help regions, and additional simplification and more flexibility is needed, whilst ensuring the funds are now directed more towards social infrastructures (healthcare in particular).
  - **A focus on the agreed priorities**: the MFF must be fit for the future challenges, such as developing the right mitigation and adaptation strategies in the fight against climate change and the fast digitalisation development of our economy and society.
  - **New approaches to address the immediate priorities**: temporarily lifting the maximum budget cap in the MFF could give the Commission extra capacity to borrow on financial markets to help underwrite spending and investments over the first three years of the MFF.
- In the context of the **Recovery Fund**, the EU should set up an effective set of measures oriented to **future-proof and sustainable investment**. This approach is the only way to allow a **genuine capacity of sharing the burden of the crisis**, via either "**Recovery bonds**" or "European Health Bonds", with a clear and defined common objective and subject to jointly-agreed guidelines.
- Counter-cyclical investment is the key element to build resilience and re-instate growth, in consonance with promoting **climate neutrality** and enhancing **social fairness**. Investment in research and innovation, as well as in social infrastructure must be a priority. The EU's ability to boost and coordinate these investments will largely define our competitiveness and leadership in the post-crisis world.

INTRODUCTION

The COVID-19 outbreak has provoked multiple impacts for European countries, and its future developments – both in terms of chronology and intensity – are hardly anticipable. The institutional responses against the virus and its effects are being designed and/or amended on a daily basis, across different levels of governance, and are largely affected by a fast-changing and unpredictable reality.

The costs of crisis management are growing exponentially, and any delay in the provision of the necessary funds on the ground will create even further expenses in the future. Short and long-term answers are intrinsically intertwined, and the EU must promptly mobilize every effort in order to prevent a domino effect from setting in and affecting an even larger range of economic activities.

As the European cross-sectoral social partner representing the essential services that are in the front line of the fight against the COVID-19 outbreak, CEEP and its members will facilitate immediate, medium and long-term solutions. Our members employ indeed over 60 million workers, contribute to approximately 26% of the EU GDP and – due to their essentiality – represent a large percentage of the activities that remain operational throughout the crisis. Public services and SGIs are the backbone of our social market economy since they provide the very infrastructure without which the whole EU socio-economic system would not be able to function. The lack of an appropriate framework supporting those essential services will seriously jeopardize our economy's overall capacity to recover.

The emergency planning and EU exit measures designed for the crisis management are crucial and will surely determine our ability to gradually get the economy back on track. However, we must not ignore the need to strategically address the medium and long-term, which mainly implies the building of solid recovery and investment plans.

CEEP welcomes that EU leaders gave to the Presidents of the European Council and of the European Commission the vital task to work on a Roadmap to recovery. In this context, CEEP believes that the EU must play a fundamental role in coordinating and guiding macroeconomic policy, stimulating the use of fiscal space and enhancing the necessary investments to tackle our main challenges whilst boosting economic growth across our Union – which has been considerably subdued even before the pandemic.

In order to do so, the EU must put forward a well-designed Multi Financial Framework (MFF) which will allow the materialisation of a fully-fledged unprecedented investment plan. The success of this initiative is paramount and must reinforce our engagement with the promotion of social fairness and environmental sustainability. Properly investing in schools, hospitals and digital infrastructure – in some MS also energy, water and waste infrastructure – is indispensable, not only to ensure resilience against eventual shocks – as it has been demonstrated by the present crisis – but also for economic prosperity in the long-term.

In times of crisis and uncertainness at Member State level, in businesses, in health and elderly-care, and other SGIs, and at the level of citizens, the EU should spread confidence in the economic and political future of the European Union. It is – as a result of the insights of the psychologic economy – widely accepted that psychological factors have an enormous influence on politics and markets. The creation of confidence as a mobilising element should accompany any recovery measure.

A well-designed MFF as a central part of the recovery action plan

CEEP agrees with the conclusion of the Eurogroup from 9 April 2020 which asserts that **the new** Multiannual Financial Framework (**MFF) will have to reflect the impact of this crisis and the size of the challenges ahead by setting the right priorities**, supporting the economic recovery and ensuring that cohesion within the Union is maintained through solidarity, fairness and responsibility.

We are however concerned about the current state of discussions on the MFF 2021-2027. Following the February meeting of the European Council, CEEP believes that the EU institutions must now step up their efforts and make decisive progress towards an agreement. The economic, social and geopolitical landscape have heavily changed since then and there is no space anymore for tensions between Member States: all already agreed that the MFF must be instrumental in financing our future recovery plan, and the time has come for compromise and substantial solidarity.

Against the above background, CEEP expects the Commission to first propose an ambitious revised MFF, with an adapted budget in line with the agreed EU political objectives and the need for a speedy recovery.

The new proposal and consequent agreement must include a genuine rethinking of the Cohesion Policy compared to the previous version. The regions and the municipalities were the hardest hit by the crisis, so we must ensure support and solidarity. Cohesion Policy is a useful tool to help regions and municipalities and CEEP underlines the need for simplification and more flexibility, whilst ensuring that funds are now directed more towards social infrastructures (healthcare in particular) which have endured a long period of chronic underinvestment as exposed by the COVID-19 crisis.

Above all, CEEP calls for the EU institutions to **ignore the calls to sacrifice our long-term ambitions to respond to the immediate crisis**. It is critical, now more than ever, to agree on a financial framework that will be fit for future challenges, such as **achieving our goals on the Cohesion Policy, developing the right mitigation and adaptation strategies in the fight against climate change and adapting to the fast digitalisation of our economy and society**.

In that perspective, CEEP has welcomed the effort of the European Commission to ensure, through a dedicated funding programme, that Europe becomes the first climate neutral continent by 2050. It will be essential to include all three dimensions – social, economic and environmental – in the fight against climate change. The Sustainable Europe Investment Plan must be concretised, and the Just Transition Mechanism made into reality to make the EU Green Deal a success.

Similarly, the MFF must reflect the need to strengthen the EU position in the global digital landscape. Along with pro-investment regulation and EU funding for R&D and innovation, it is essential to support European innovators and tech leaders. The next MFF should stimulate future oriented digital technologies, solving individual and collective daily life challenges, improving SGI delivery, mobility, safety and ultimately the standard of living of EU citizens.

Against the COVID-19 outbreak, **the "how" will be equally as important as the "what" and can become a benchmark for future MFF**. CEEP supports the ambition to design innovative instruments in the context of a revised MFF to address the COVID-19 consequences. In particular, **we support the potential temporary lifting of the maximum budget cap in the MFF as this could give the Commission extra capacity to borrow on financial markets** money which could in turn be deployed to help underwrite spending and investments of as much as €1,5tln by Member States over the first three years of the MFF. Such instrument would support the immediate investment needs stemming from the current economic turmoil and speed up recovery across the continent.

Finally, CEEP calls for the Commission to be ready for all situations and, in case of no swift agreement between the Member States, to prepare a contingency plan and a contingency budget for 2021. The EU needs to ensure continuity for beneficiaries and more flexible solutions should be found for structural funds.

Building a new dedicated Recovery Fund and an investment-led recovery plan

The agreement of the Eurogroup on 9 April, to be confirmed by the European Council on 23 April, to channel €540bln to support Member States, enterprises and workers through the **ESM**, the **EIB** and the **SURE** is an important achievement in paving the way towards recovery. Nevertheless, significant additional resources must be promptly mobilised in order to cope with the massive downturn ahead and avoid the complete collapse of our social market economy.
The Pandemic Crisis Support of the ESM alone will not allow the return to a normal functioning of our economies and our labour markets. In this spirit, the promotion of strategically designed investment is the key element to be enhanced, not only at national, but now especially at EU level.

CEEP therefore welcomes the Eurogroup agreement to work on a new dedicated **Recovery Fund and** calls for the European Council to confirm that decision on 23 April. Time has now come to clarify the nature of the "**innovative instruments**" which will serve as a basis for the issuance of the "**Recovery bonds" guaranteed by the EU budget**.
The EU should set up an effective set of measures truly oriented to future-proof and sustainable investment and not involving the mutualisation of existing debt. In our view, this approach is the only way to allow a genuine capacity of sharing the burden of the crisis. However, if "Recovery bonds" are not a politically realistic option, CEEP advocates for other possibilities, such as the recent call for issuing "European Health Bonds", **with a clear and defined common objective and subject to jointly-agreed guidelines.**

This request is based on solid arguments: **the EU needs to share the burden as the pandemic simultaneously and indistinctively hits all countries socially and economically, regardless of previous economic or fiscal policy choices**. Burden-sharing enables and facilitates the support of the healthcare systems during the sanitary crisis and should support a swift restart of economic activities. Finally, and most importantly, this recommendation for "recovery bonds" relies on a clear business case: **a failure in burden-sharing mechanisms will very quickly and for a long time put the entire EU internal market, and by extension the EU project as a whole, at risks.**

The effectiveness of a dedicated Recovery Fund will also enable Europe to re-think investment policies in the longer term. This will be necessary as the economic and social impact of the COVID-19 outbreak will be strongly felt in the years to come. The International Monetary Fund has already put forward projections regarding the economic impacts of the pandemic, which point to even more severe damages than the Great Depression.

The particularity of this shock lays on its symmetrical and exogenous character, which can seriously compromise the EU’s general rehabilitation capacity. The COVID-19 effects are truly global, and are already causing several constraints to international supply chains and overall capital flows.

As most EU countries have just recently re-established their pre-crisis economic performances – and their states of play still vary considerably across the EU, many are still in a position of vulnerability, especially when it comes to debt ratios. Additionally, the impacts of the COVID-19 crisis are not yet homogeneous amongst Member States and, depending on the main economic activities carried out at the national level, can trigger further fragmentation and jeopardize years of investment and upward convergence.

The interdependence that intrinsically connects globalised economies – particularly within the eurozone – imposes the necessity to design a united and coordinated approach at EU level to overcome this crisis. **There is simply no way for single Member States to recover alone. Collective action is not only an exercise of European solidarity, but also of strategic economic thinking**.

Capital availability will be deteriorated for a certain period of time which, naturally, requires a plan that relies on both the EU budget and on external funding via the emission of bonds – that must reflect the universality of this crisis and not unfairly compromise national balance sheets.

CEEP strongly believes that counter-cyclical investment is the key element to activate the aggregate demand once lockdown measures are progressively lifted and to additionally build resilience and **re-instate growth, whilst promoting climate neutrality and enhancing social fairness.**

Therefore, we support the liquidity measures put forward at the EU level so far and which will surely be indispensable to manage the health crisis and avoid widespread bankruptcy and unemployment. However, those measures **must be followed by unprecedent efforts in order to instate an investment-led model of economic reconstruction, vastly driven by the promotion of green and digital initiatives.**

Investment in research and innovation, as well as in social infrastructure must be a priority. The EU’s ability to boost and coordinate these investments will largely define our competitiveness and leadership in the post-crisis world.

Innovation could also comprise the investments themselves. It is by far not only a task of state or EU level to invest, especially in new businesses. A challenge would be to increase the readiness of private investors to invest in start-ups. The kind of framework we need for that can be found by learning from the best, e.g. California.

The future of our social market economy will directly depend on the efficacy of each of those steps, from the primary urgency measures, to the exit strategy and the recovery plan. **The “day after” might be hardly predictable now**, but it will be a direct product of the path we choose to take now. This trajectory-dependent future implies that **each and every phase of the crisis management is crucial and must be carefully, and yet, promptly carried on.**