Veblen Institute *for Economic Reforms*

The European recovery should respect the "Green Oath"

Mathilde Dupré*, Julien Hallak** & Wojtek Kalinowski***

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INTRODUCTION

Responses to the Covid-19 crisis must support the social and ecological transformations required to meet the climate and environmental goals of the EU and France and to guarantee dignified living conditions for the entire population. This involves not only developing all measures that present potential joint-benefits for the revival of economic activity and the transition, but also accepting the decline of the most polluting activities and sectors, and supporting the economic players and employees affected during the transition phase.

The financing of recovery plans must be adapted to fit this objective, not the other way round. Yet the plan presented by the European Commission on 27 May fails to do so: it provides valuable assistance to States and takes an important step towards debt mutualisation, but does not show how the ecological transition can be accelerated. Investments in the key sectors of the Green Deal are overwhelmingly based on private funding. This constraint risks steering the Green Deal towards components that are important but also the easiest to deal with, leaving aside many crucial challenges and sometimes repeating the mistakes of the past.

This note proposes another way forward: first, a coherent ecological roadmap, including essential social measures required to meet the democratic challenge posed by the transition, and second, innovative financing solutions. Funding is a technical issue that should not prevent us from taking action in the face of crises that threaten our living conditions. In order to relieve the stresses currently weighing on public finances, we

* Mathilde Dupré is Co-Director of the Veblen Institute. She graduated from Sciences Po, Paris with a Master's degree in International Development Economics and is the former Head of Advocacy Against Tax Evasion and For Corporate Social Responsibility at CCFD-Terre Solidaire.
** Julien Hallak is a Project Manager at the Veblen Institute. He graduated with a Master's degree in International and Development Economics from the University of Paris-Dauphine, Member of the Exploring Economics team.
*** Wojtek Kalinowski is Co-Director of the Veblen Institute. A Graduate of Uppsala University in Sweden, Paris-Sorbonne University and the École des Hautes Études en Sciences Sociales in Paris, Former journalist at Alternatives Economiques and editor of the magazine La Vie des Idées.

propose four types of solutions that can be complementary: quasi-perpetual and “melting” mutualised debt, monetary financing, debt cancellation and “helicopter money”.

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THE EUROPEAN RECOVERY SHOULD RESPECT THE "GREEN OATH"

MATHILDE DUPRÉ, JULIEN HALLAK & WOJTEK KALINOWSKI

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The Veblen Institute for Economic Reforms is a non-profit think tank promoting policies and civil society initiatives for the ecological transition. We believe the current economic model is profoundly unsustainable and should be transformed in the spirit of social justice and respect of planetary boundaries.

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1. INTRODUCTION

At a time when most European countries are coming out of lockdown, the human, social and economic toll of the Covid-19 pandemic is still very difficult to measure. Although massive government interventions have temporarily compensated losses of household income due to the economic shock and the hibernation of many economic activities, these measures could gradually be phased out, while prospects of an upturn in activity remain very uncertain and vary greatly from one business sector to the next. Uncertainty over the duration of the epidemic makes it particularly difficult to develop exit plans from the crisis. The extension of certain emergency measures may thus prove necessary, at least in certain sectors.

As for the debate on how to rebuild and transform the European economy after lockdown is lifted, it has only just begun. In addition to the rescue measures already taken by Member States, the EU and the European Central Bank (ECB), the Commission has just presented a draft recovery plan based on the Franco-German proposal for mutualised European borrowing to help the regions and sectors most affected by the economic crisis, on which the Council and the European Parliament have yet to take a decision. And at the domestic level, many measures are still in the preparation phase.

This note addresses two key issues in this debate.

- What **social, tax and environmental conditions** should States impose in return for their support? The massive influx of public money into the economy needs to enable the social and ecological changes required to meet the climate and environmental goals of the EU and France to be implemented and supported.
- Above all, how can the measures currently being taken or discussed be connected to the objectives of ecological and social transition? **A return to “normal” does not seem possible or desirable**, especially since our development model bears its share of responsibility for the health crisis[1].

In our view, the debate on current priorities suffers from an overly schematic opposition between the short term and the long term. The transformation of the economic fabric will inevitably take time, but the timescales will be highly variable across industry sectors: reducing energy consumption for heating or increasing the market share of short supply chains can achieve faster progress than the development of collective and intermodal transport systems in conurbations, etc. It would, therefore, be a mistake to separate the two timeframes by wanting to save the economy first and then take care of the rest.

Our proposals are based on three fundamental observations:

1. Many potential joint-benefits exist between the revival of economic activity in the short and medium term and the pursuit of ecological and social transition objectives; however, measures to boost economic activity must prioritise those target sectors, activities and economic models most aligned with climate and environmental objectives.

[1] Many experts link loss of biodiversity to the emergence of new epidemics of zoonotic origin and warn that health risks are likely to increase with climate change. See Philippe Grandcolas and Jean-Lou Justine, “Covid-19 or the pandemic of mistreated biodiversity”, *The Conversation*, 25 March 2010.

2. At the same time, we have to prioritise our objectives. Some of the measures needed for ecological and social transition are not "dual-impact": both environmentally and economically advantageous. When joint-benefits give way to irreconcilable objectives, preserving the pre-crisis economic fabric at all costs should not be the priority. On the contrary, we must accelerate the transition efforts required to invent a societal model that respects the physical limits of the planet.

3. **The financing of this transition is a technical matter** that should not prevent us from acting in the face of a crisis that threatens the habitability of the planet and, ultimately, our very survival. Tools exist to enable governments to protect society during an extended transition period, provided that they steer this transition towards climate and environmental goals and fully mobilise resources and institutions.

The ecological transition is a dual transformation of both our production model and lifestyles; both dimensions must be supported by ambitious public policies, rather than being postponed on the grounds that the current emergency needs to be addressed. We must, therefore, actively seize opportunities wherever they arise to implement this shift in attitude and to cement it into the functioning of our economies.

"[In 2008], no country actually implemented a fully "green" stimulus package or issued binding conditionalities on the "green" use of fiscal and tax measures. Analyses of the 2008 recovery plans highlight the mistakes to be avoided in 2020"

Report by the Haut Conseil pour le Climat

So let us not repeat the mistakes of 2008. The lack of real climate ambition in the recovery plans implemented at that time explains some of the delay in the achievement of climate and environmental objectives. 'Grey' investments cancelled out the positive effects of the few green investments made and too little attention was paid by States to the lock-in effects of certain measures that maintained an unsustainable trajectory[2]. This time around, emergency measures must be designed to link with medium-term crisis exit measures compatible with the transition.

2. A CRISIS WITH MULTIPLE IMPACTS

The international Covid-19 epidemic has caused an unprecedented economic crisis of a very different nature from the one triggered in 2008 by the global financial crisis. This crisis could be compounded by another major financial crisis due to the vulnerabilities that have accumulated in the international financial system over the past decade. The social repercussions could plunge many people into insecurity and poverty.

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[2] Haut Conseil pour le climat, "Climat, Santé : mieux prévenir, mieux guérir", report, April 2020 based on Niklas Höhne, Jan Burck, Katja Eisbrenner, Lukas van der Straeten and Dian Phylipsen, "Economic/climate recovery scorecards. How climate friendly are the economic recovery packages?" E3G and WWF, April 2009 and Hadrien Hainaut, Maxime Ledez, Quentin Perrier, Benoit Leguet and Patrice Geoffron, "Investing in climate can help France drive its economic recovery", I4CE, April 2020.

2.1. A double supply and demand crisis

The crisis can be described as a negative supply shock – the shutdown of part of the production apparatus and the slowdown in trade – followed by a demand shock caused by the lockdown of almost half of the world's population. In France, various studies have estimated the drop in activity during lockdown at about one third of the "normal" situation. Each month of containment has caused a loss of between 2.5% and 3% of annual gross domestic product (GDP)[3].

2.2. Implications for the financial system

The measures taken by the European Central Bank and financial regulators have been aimed at preserving liquidity in the markets and easing refinancing conditions for banks. Facilitated access to debt has enabled many economic agents to meet the costs of the crisis without finding themselves insolvent[4]. However, the situation is worrying in the longer term, especially since the crisis is taking place against a backdrop of accumulated financial vulnerabilities worldwide since 2008. As pointed out by Jézabel Couppey-Soubeyran, Laurence Scialom and Baptiste Bridonneau in their interviews with the Veblen Institute[5], the reforms undertaken in the financial sector after 2008 were insufficient to guarantee its resilience to protracted shocks, especially since debt, both public and private, had already reached very high levels prior to the recent crisis[6].

According to these three economists, the monetary and regulatory measures adopted may be relatively effective in mitigating short-term liquidity risks but reinforce existing vulnerabilities by replicating the strategy applied after the 2008 crisis, i.e. by "adding debt to debt". They propose other instruments, such as the monetisation of public expenditure accompanied by "helicopter money" for households[7] or the cancellation of the public debt held by central banks (see section 6)[8]. **Without an innovative monetary policy, the costs of the crisis could permanently undermine our ability to meet current ecological, democratic and social challenges.** While these instruments are intended to remove any obstacles to ecological and social transition, they also address the need for structural reform of the financial system.

Lastly, these issues directly determine the way in which the costs and the crisis are financed, and therefore the distribution of effort within our societies. Currently, the wealthiest individuals

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[3] See INSEE's economic outlook notes of 26 March, 9 and 23 April, the Banque de France's update on the French economy at the end of March 2020, and OFCE *Policy Briefs* 65 and 66

[4] Tobias Adrian and Fabio Natalucci, COVID-19 Worsens Pre-existing Financial Vulnerabilities, IMF Blog, 22 May, 2020.

[5] "Quels instruments monétaires et financiers face à la crise du Covid-19 ?" [What monetary and financial instruments are needed to deal with the Covid-19 crisis?]", interview with Jézabel Couppey-Soubeyran, 18 May 2020 and "Pour sortir de la crise : repensons la monnaie" [Exiting the crisis: rethinking monetary policy], interview with Laurence Scialom & Baptiste Bridonneau, May 2020.

[6] Michel Aglietta & Sabrina Khanniche, "La vulnérabilité du capitalisme financiarisé face au coronavirus" [The vulnerability of financialised capitalism in the face of coronavirus], CEPII Letter 407, April 2020.

[7] Jézabel Couppey-Soubeyran, ""Helicopter money" to combat economic depression in the wake of the health crisis", Note by the Veblen Institute, April 2020.

[8] See the notes published in April 2020 by Terra Nova written by Laurence Scialom & Baptiste Bridonneau: "Crise économique et écologique : osons des décisions de rupture [Economic and ecological crisis: daring to make unprecedented decisions]" and "Des annulations de dette publique par la BCE : lançons le débat [Public debt cancellation by the ECB: opening the debate]"

and the most polluting companies will still benefit the most from the measures mentioned above, particularly asset buybacks. Steps must now be taken to consider the proposals put forward by civil society in favour of fairer and more sustainable responses[9].

2.3. Increase in public debt

In France, as in other European countries, the social security system has played a key role in limiting decline in household income. According to the French Economic Observatory or OFCE, over the eight weeks of lockdown, the increase in the general government deficit offset 57% of the fall in revenues observed in the economy as a whole; the rest of the shock (33%) was absorbed by companies in the form of lost turnover, while the fall in household income represented only 7% of the overall decline[10].

While the emergency measures have enabled household income to be at least temporarily decoupled from the economic shock, the resulting increase in public debt raises the question of the long-term distribution of efforts**. As things currently stand, it is taxpayers who, via public debt, risk bearing the costs associated with massive programmes of State intervention and loan guarantees granted to companies**.

2.4. A fragile economic model

The crisis has revealed the vulnerabilities of our globalised economy: international value chains, just-in-time management, lack of stocks of strategic goods, etc. This has recently been observed with respect to the risk of disruption to the supply of medicines: 80% of the active ingredients used in their production are manufactured outside the EU, notably in China and India.

Companies' delocalisation, or offshoring, strategies vary widely by industry sector: with a more regional scope in the automotive industry, the offshoring of certain segments in the pharmaceutical and sports footwear industries, and more comprehensive offshoring strategies for textile, toys and furniture manufacturing[11], etc. Guided by a cost-reduction logic, these strategies take advantage of differences in environmental and social standards and, of course, tax rules, as well as the commercial and tax advantages granted by the bilateral agreements between countries. They can be used to increase the dividends paid to shareholders as well as to ensure the company's survival when competition is strongly governed by the price factor. But this trend is not immutable and we have recently seen forms of relocalisation (reshoring) or regionalisation of value chains, explained notably by rising wages in emerging countries, the automation of certain business activities, and "mass customisation" strategies[12]. Within each industry sector, there are also innovative strategies that show that it is possible to reinvent the rules of the game at any point.

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[9] See the call from 44 European organisations "The ECB must not sideline climate risks in its COVID-19 response"

[10] Figures taken from OFCE *Policy Brief* 66, corroborated by the INSEE's economic outlook note of 23 April. The remaining 3% is split between the non-profit sector and sole proprietorships

[11] El Mouhoub Mouhoub, "Délocalisations : comment faire machine arrière ?" [Offshoring: How can we turn back the clock?], Alternatives Economiques, 6 May 2020.

[12] That is to say the multiplication of the number of models and offers that can be customised at a cost as close as possible to that of standardised products. See "Foul Play: Sponsors leave workers (still) on the sidelines", report by the Collectif Ethique sur l'étiquette, in partnership with Basic, 2016.

Faced with this complex picture, relocalisation policies dictated "from above" have so far proved fairly unsuccessful. To be truly effective, such policies must emerge at domestic level, starting with the sectors most closely linked to the ecological transition: food, energy production, transport, etc. And they must be accompanied by a strengthening of the overall regulatory framework to require, for example, true product traceability and compliance with environmental, social and tax rules, and use the lever of public procurement (section 5).

2.5. Asymmetric impact on countries

On the health front, the situation of healthcare systems in developing countries is particularly worrying and also calls for strong solidarity measures. This is all the more vital since these countries are more vulnerable to economic shocks. Emerging countries have experienced historic levels of capital flight in recent weeks, and almost half of the LDCs were at high risk of over-indebtedness before the crisis. From this point of view, the announcements made by the G20 and the Club of Rome about a moratorium on debt payments for the 77 poorest countries during the year 2020 could prove insufficient by simply postponing impossible deadlines on which interest continues to accumulate[13].

3. Analysis of the European Commission's recovery plan

After an initial series of rather undersized emergency measures announced during March and April[14], on 27 May 2020, the European Commission outlined its recovery plan to promote investment and reforms focused on three main priorities: the European Green Deal, digitisation and "resilience".

In terms of funding, the European Commission proposes to:

- Immediately release funds for 2020 within the current multiannual financial framework 2014-2020 (€11.5 billion);
- Revise the Community budget for the period 2021-2027;
- Borrow €750 billion for Europe (the "Next Generation EU" initiative) to cover crisis-related expenditure between 2021 and 2024. €190 billion of this borrowing will be used to strengthen the EU's own action, while €560 billion will be used to help Member States manage the crisis.

The aid provided to States through this borrowing will take the form of grants (€310 billion) and loans accessible to States (€250 billion); in the latter case, the aim is to mutualise interest rates only, i.e. to allow States in the worst situations to benefit from better terms of debt.

[13] "G20 : Un moratoire sur la dette des pays pauvres ne sera pas suffisant" [G20: A debt moratorium for poor countries will not be enough]. Press release from Plateforme dette et développement, 15 March 2020.

[14] A new credit line for companies, provided by the European Investment Bank; "corona" loans available to Member States via the European Stability Mechanism (ESM) to finance rescue plans, of up to 2% of each beneficiary country's GDP; and, lastly, the SURE regulation, opening a new line of credit (limited to €100bn in total) to the ESM, accessible to all EU member states and aimed at helping them finance the costs of unemployment.

3. 1 A welcome response at EU level

EU-wide debt mutualisation

Based on a proposal made by France and Germany, the Commission is offering to pool borrowing of €750 billion at European level and redistribute a significant proportion of it to Member States in the form of subsidies. If this proposal is validated by the Council, it would be an important step towards overcoming the blockages that are undermining European integration.

Allocation of funds within the EU: the principle of European solidarity maintained

While funding will be available to all EU Member States, the **areas most affected by the crisis will be designated as priority areas**: this expression of European solidarity echoes the Franco-German proposal as well as the principles of the ECB's asset purchase programme: to help the regions most affected by the crisis.

3.2 Level of ecological ambition is still uncertain

Is it compatible with the Green Deal?

The European Commission says it wants to stay on the course set by the Green Deal and explicitly announces that public investments in recovery should respect the green oath of "do no harm" in relation to the climate and environmental goals set out in the Green Deal. But much remains to be clarified to ensure that the €1.85 trillion is genuinely used to serve the ecological and social transition. In this respect, the restated commitment to mobilise 25% of the Union's budget for climate investments may not be sufficient if the remaining share continues to support an unsustainable economic model. **As for the recovery instruments outside the European budget – i.e. the bulk of the €750 billion borrowed – there are currently no 'green' objectives**.

Indeed, the multiplicity of the recovery plan's objectives and the absence of strong announcements on the ecological dimension prompt fears of a lack of ambition. The Communication addresses a very wide range of topics (skills and training, digital education, strategic raw materials, circular economy, democracy, sustainable finance, clean hydrogen, biodiversity, forests, food, cyber security, victims' rights, security, industry, pharmaceuticals, migration and asylum, education and children's health, etc.). And if the subsidies linked to the loan are used to finance the current measures taken by the Member States, in particular in support of the aviation or automotive sectors, there is a high risk of repeating the mistakes of 2008.

Economic rather than ecological conditionalities?

Moreover, the political control exercised by the Union over the use of the funds granted to the Member States through the new Recovery and Resilience Facility (with a budget of €560 billion) is likely to result in a form of conditionality that is more economic than ecological. Since there has been no fundamental redesign of the mechanism of the European semester to put ecological and social objectives at the heart of the system, nor any revisiting of the economic dimension, the European package remains very similar to the one that has imposed

structural reforms on member countries in the past (budgetary consolidation, competitiveness, improved labour market flexibility, privatisations, etc.).

3.3 Limited capacity

The whole package is too small

The total amount of the package is certainly substantial, but so are the needs to be met. The health and economic crisis that has hit the European Union hard adds additional funding needs to those already identified under the Green Deal. However, the Green Deal financing plan announced at the beginning of the year already appeared insufficient to achieve the ambitious objectives stated[15]. The new amounts announced, despite their size, may not make up these shortfalls and cover all the new needs.

According to new European Commission estimates[16], the total investment needs (public and private) to cover companies' equity losses, the private investment gap, the structural investment requirements of the Green Deal and digital transition and investment in social infrastructure amount to a total of €5.4 trillion in 2020 and 2021, of which €1.7 trillion is due to the additional impact of the crisis, i.e. an amount of 16.6% of GDP per year over two years. However, these amounts include indiscriminate rescue measures and support for private investment, aimed at all companies in all sectors of activity. If the Commission follows its green oath commitment, it should accept a certain decline in the most polluting activities and sectors and simply support the actors concerned to move towards conversion.

In addition to the gap between the needs identified and the means, some of these estimates appear very optimistic. The amounts corresponding to the sectoral investments required under the Green Deal (€470 billion per year, or about 2.9% of GDP) seem, for example, to be lower than those previously mentioned in other European Commission documents. Note that, as early as 2016, the Commission's "Reference Scenario[17]" indicated that the EU could not achieve its climate objectives without encouraging investment of 6% of GDP per year by the early 2020s. Since then, the EU has fallen behind even as it has revised some of its climate targets upwards, which has contributed to a further widening of the investment gap.

When the target for the reduction of primary energy consumption was increased from 30% to 40%, the Commission's impact studies had even estimated that it would cost €1.565 trillion per year, or 8% of the European GDP[18]. This figure is much higher than the effort mentioned by the Commission in the Green Deal and in the documents accompanying the recovery plan. As an example, the annual investment needs in transport were, in previous estimates, €705 billion per year and not the €120 billion now stated.

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[15] "Making the Green Deal work: a social and environmental programme to lead Europe out of crisis", Mathilde Dupré, Julien Hallak & Wojtek Kalinowski, March 2020.

[16] European Commission, "Identifying Europe's recovery needs. Accompanying the document "Europe's moment: Repair and Prepare for the Next Generation", 27 May 2020.

[17] European Commission (2016), "EU Reference Scenario 2016. Energy, transport and GHG emissions: trends to 2050".

[18] Commission Staff Working Document, Impact Assessment Accompanying the document Proposal for a Directive of the European Parliament and of the Council amending Directive 2012/27/EU on Energy Efficiency, COM(2016) 761 final, Table 22, p. 66. Even in 2019, these estimates were still being used in the Commission's Communication, see COM(2019) 285 final,Graph 5.

Moreover, these estimates still do not take into account the announced increase in the emissions reduction target to -50 or even -55% by 2030.

A risky gamble on private co-financing

According to the Commission, the success of its plan depends heavily on its leverage effect, i.e. its ability to encourage private funding with the public funds committed. In its Communication on the budget for the recovery plan[19], the Commission states that with the total amount of the European funds borrowed and the emergency measures already adopted, the total package amounts to €1.29 trillion. According to this Communication, "Applying conservative estimates of the leverage effect of the multiannual financial framework and Next Generation EU, the total investment that could be generated by this package of measures amount to €3.1 trillion". However, it acknowledges that these assumptions may prove optimistic in view of the uncertainties surrounding the current economic situation.

Several key instruments of the plan are based on a mode of intervention that implies a high degree of leverage.

- **Solvency support facility.** This new instrument aims to facilitate the mobilisation of private resources to provide urgent support to European companies that are in good health but facing urgent liquidity and solvency problems. With €5 billion in 2020 from the current financial framework and €26 billion from the borrowed funds, it should be possible to provide a guarantee of around €75 billion to the European Investment Bank, in order to stimulate investments of up to €300 billion.

- **InvestEU**. The Commission proposes to increase the InvestEU fund allocations to a level of €15.3 billion and expects additional investments of more than €240 billion with a focus on the Union's medium and long-term policy priorities, in particular the European Green Deal and digitisation.

- **New Strategic Investment Facility**. This Investment Facility will be an additional branch under InvestEU to support projects contributing to the development of strong and resilient value chains, in particular in key sectors for the digital and green transitions and for the autonomy of the EU single market (particularly in the active pharmaceutical ingredients and raw materials sector). With €15 billion from the Next Generation EU initiative, the new mechanism would provide an EU budget guarantee of €31.5 billion and could generate investments of up to €150 billion.

Of course, the mobilisation of private funding is helpful when it contributes to achieving the Green Deal's objectives. However, in a context in which financial regulation fails to provide sufficient incentives to align private finance with climate objectives, this almost total dependence on private investors poses two fundamental problems:

- It steers public action towards areas where the investment creates the conditions for its repayment most easily, i.e. those where a "helping hand" is enough to generate

[19] European Commission, "The EU budget powering the recovery plan for Europe", 27 May 2020

powerful leverage effects. In doing so, public action proves quite incapable of dealing with the more difficult issues effectively: protection of biodiversity, agricultural and food conversion, rail transport and other sectors in which a simple “helping hand” is not enough, such as the deployment of social measures to accompany climate policies, etc.

- It also entails a risk of “greenwashing” since it makes environmental performance subject to the requirement of short-term profitability.

3.5 Sectors targeted in the green component of the recovery plan

The leaked document[20] mentioned above detailed the measures envisaged by the Commission for the green recovery component of the crisis response plan. It is not, however, included in the initial documents officially presented by the Commission. It identified priority sectors such as the renovation of buildings, renewable energy and hydrogen, electric cars and railways. While the sectors identified seem relevant, the envisaged allocation of resources reflected several questionable choices.

Renovation of buildings

The Commission planned to boost the “renovation wave”, already announced as part of the Green Deal, in order to speed up the pace and degree of planned renovation, particularly in the public sector building stock, with a European Renovation Financing Facility. The first phase would be devoted to public buildings and social housing. In terms of private buildings, the plan expected a similar leverage effect, with some €50 billion of “green” loans mobilised thanks to the €5 billion of bank guarantees provided by the InvestEU fund. When the recovery package was announced, €10 billion in guarantees for the renovation of buildings were ultimately announced.

Renewable energies

The Commission announced that it wanted to save the renewable energy market, at half mast this year in the wake of the crisis. To compensate for the drop in calls for tender observed within Member States, it proposed a Community tendering system to finance renewable energy electricity projects, to generate an overall production of 15 GW (i.e. 25% of the market) over two years. This effort would represent a total investment of €25 billion and €10 billion in support of national projects over two years, thanks to co-financing from the European Investment Bank (EIB).

The hydrogen industry

The Commission also intends to invest heavily in decarbonisation and the development of hydrogen production. The measures envisaged were as follows:

- The doubling of the amounts allocated to research and innovation (to €13 billion);
- An additional €10 billion over ten years to co-finance large and complex projects;

[20] Ibid

- A fund of €10 billion per year, managed by the EIB, and a scheme similar to the renewable energy tendering systems to bridge the cost gap between hydrogen from natural gas and decarbonised hydrogen.

“Clean” transport

The clean mobility component focused on the automotive sector, with in particular:

- A funding facility of €20 billion over the next two years to subsidise purchases of clean vehicles, including the least emitting internal combustion engine vehicles;
- An investment fund (between €40 and 60 billion) for clean vehicles;
- The doubling of EU investment in charging infrastructure for electric cars; And, lastly, a target of one million charging stations for electric vehicles was announced.
- VAT exemptions for “zero-emission cars” (this term appears problematic in itself; from a life-cycle analysis perspective, “zero-emission cars” do not exist)

A missed opportunity to develop the railway network. Although the Commission stated that “Europe needs a rail renaissance”, the amount dedicated to this sector (€40 billion) is essentially funds already earmarked (the Connecting Europe Facility (CEF) programme and cohesion funds), to which the Commission hoped to add unspecified co-financing. The overall financial envelope would therefore be less than that devoted to the automotive sector, even though the train already suffers from unfair competition from a car sector that emits far more CO_2 and is the source of other negative externalities.

This amount would be concentrated on the main corridors where passengers and freight can switch to rail, as well as providing financial support for the conversion of rolling stock and the return of night train services within Europe. It is therefore a work programme that is very similar to that of the previous CEF period, with equally similar amounts[21].

The same discrepancy can be seen in the proposed regulatory changes: whereas European car manufacturers could benefit from reduced VAT rates for “zero-emission cars”, rail investors would be offered simplified administrative procedures, and travellers a simplified tool for buying international train tickets online.

Urban mobility programmes, such as cycling infrastructure, could be financed through regional funding programmes. It was a minor point of the plan presented.

Agriculture

In this sector, the Commission’s announcements focus very much on technological solutions – access to digital technology in rural areas, investment in precision agriculture – but also on carbon sinks and the development of fuels and gases from biomass. In each area, the draft green component quantified the investment needs without mentioning the investments themselves. Above all, as in the Green Deal, the document did not present any major change to the European agricultural model (see section 5).

The circular economy

[21] The Connecting Europe Facility. Investing in European networks, Innovation and Networks Executive Agency, June 2019.

The circular economy is at the top of the EU's industrial agenda and the draft Green Recovery Plan returns to it at length, without introducing concrete measures beyond those already announced in the Green Deal and in the Action Plan on the Circular Economy presented in March 2020.

4. Directing stimulus packages towards ecological and social transition

An analysis of the emergency measures taken by States reveals a profound gap between the objective of rescuing the economy on the one hand and the ecological and social transition on the other. In order to correct this situation rapidly and give coherence to our public policies, the States and the EU should align themselves more closely with respect to the climate and environmental goals set out in the "Green Deal" presented by the European Commission in December 2019. Many of the EU's goals have already been translated into national action plans such as energy-climate plans[22], and the Green Deal "roadmap" takes a further step towards ecological and industrial coordination at European level.

To go further, the support measures currently adopted by States must be linked to the conditionalities outlined below, but above all must be complemented by a broader action plan, specifically targeting transition objectives:

- **A strengthening of the welfare state to guarantee an effective safety net during a transition period** that will be much longer than the "simple exit" from the current health crisis, and which will inevitably include an element of selective "degrowth" in certain sectors of activity.
- **A strengthening of the regulatory and fiscal framework to further transform production modes and business models**. In the current context of many calls for deregulation and tax cuts, a clear restatement of the role of standards and ecological taxation is essential in order to meet long-term objectives.
- **A massive public investment plan focused on strategic sectors for the ecological transition** – the financing of which will be discussed in the next chapter – and also implemented at local level through the funding of local authorities' actions and local projects led by citizens and actors of the social and solidarity economy.

4.1. From social and tax conditionalities to State aid

Certain minimum requirements should be laid down for all business support measures, including emergency measures such as short-time working but also for longer-term assistance such as public loans or guarantees.

[22] As part of the governance of the European Union's climate and energy policies, each Member State must adopt and submit to the European Commission a national energy and climate plan for the period 2021-2030.

4.1.1. Respect for labour law and social dialogue bodies

Require compliance with labour law and basic rules of occupational safety, including the right of to withdraw. This includes restoring and then strengthening the obligation to consult employee representatives on proposed measures.

There is also a need to extend legal obligations of due diligence to companies with more than 500 employees and to speed up the adoption of a similar rule at European level, to ensure that companies ensure respect for social and human rights throughout their value chain.

4.1.2. Job retention and training plans

In return for the aid granted, companies with more than 250 employees must draw up training and skills management plans and submit them to the Inspection du Travail (Labour Inspectorate), to demonstrate their active efforts to preserve employment through the possibility of internal mobility. These action plans shall form the subject of consultations with staff representatives. In addition to balancing the adaptation costs between firms and employees, such policies increase capacity for innovation and growth in the sectors concerned.

4.1.3. Shareholder contributions

The payment of dividends and bonuses to directors or the repurchase of shares should be prohibited for companies that have benefited from short-time working measures or State aid, for the duration of the public intervention (in particular, until the loans granted have been repaid).

4.1.4. Tax responsibility

Although discussions have taken place in several countries, including Austria, Germany and Poland, no State has imposed any real tax conditions on the aid offered to companies. The Danish government has announced that it will exclude companies registered in tax havens from State aid measures[23]. In France, an amendment along the same lines was adopted during the examination of the draft Amending Finance Bill in the Senate, to exclude companies with subsidiaries or establishments in tax havens officially listed by France[24]. This proposal was eventually removed from the text and replaced by a Ministry of Finance circular, which now only excludes subsidiaries “without substance” domiciled in those jurisdictions.

In these two cases, the actual scope of such a measure remains in any case very limited due to the incomplete nature of the “official” lists of tax havens. States could be inspired by the more rigorous approach developed by the NGO Tax Justice Network[25], which suggests making aid conditional on five criteria.

[23] However, the EU list of tax havens is very short and includes only 12 jurisdictions: American Samoa, Cayman Island, Fiji, Guam, Oman, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu, Seychelles.
[24] The French list of tax havens is very similar to the European list as of the beginning of 2020. It lists 13 jurisdictions (minus the Cayman Islands and Palau and plus Anguilla, the Bahamas and the British Virgin Islands).
[25] Tax Justice Network, “Tax-responsible rules for Corona Bailouts”, 23 April 2020

4.2. The deployment of a safety net for all

In order to make the implementation of such an ecological transition plan socially acceptable, States must redouble their efforts to devise protective mechanisms for all citizens. This will require the maintenance, or even strengthening, of certain social measures adopted during the crisis and the deployment of new instruments to protect vulnerable populations.

- Short-time working measures should be maintained for employees of firms in sectors that cannot resume activity for health and safety reasons.
- The implementation of the recent unemployment insurance reform should be abandoned and further steps taken to ensure extended unemployment rights for employees in bankrupt companies and in polluting sectors undergoing restructuring.
- A rapid and significant increase in the minimum social welfare benefits and the extension of the RSA (in work welfare benefit) to the under-25s, who are not currently getting any State support.
- Social dialogue should be prioritised over the discretionary payment of tax-free and desocialised bonuses to resolve social crises.

4.3. Social policies to support the transition

The shutdown of a large part of our economy has brought to light many activities that are essential[26] to the functioning of our society and yet are poorly valued, be it in medico-social care services, education, food distribution, logistics and transport, or even in sanitation services and waste management. In addition to one-off measures, the crisis that we have just experienced should trigger a movement to upgrade these many professions, via changes in public service employees' pay scales, changes in rates for the delegation of public services, or through more general measures aimed at limiting pay differentials in general[27].

Moreover, the transformation of our economy towards a cleaner and more sustainable model involves changes in terms of jobs and skills. The employment section of the fourth edition (2017) of the "100% renewable in France by 2050" energy scenario produced by the negaWatt association is illustrative in this respect. While the transition scenario does have a higher employment content than the baseline scenario, with net creation of 400,000 by 2030, this overall figure hides some very varying developments across the different sectors: some, such as road transport, could experience net losses.

The transition therefore requires forward-looking skills management and mechanisms to protect and support employees. As suggested by the RAC (Climate Action Network) and the

[26] According to the International Labour Organization, essential services are "services the interruption of which would endanger the life, health or personal safety of the whole or part of the population"

[27] See for example G. Giraud and C. Renouard, "Le facteur 12. Pourquoi il faut plafonner les revenus" [Factor 12. Why incomes should be capped], Carnets Nord-Montparnasse editions, 2012 or J. Merckaert and L. Leclair, "Vers un plafonnement des écarts de revenus" [Limiting income disparity], Revue Projet, January 2017.

CFTC (French Confederation of Christian Workers) in a set of proposals published in 2017[28], this involves:

- “Determining the developments in trades, qualifications and skills associated with the ecological transition in order to identify training needs;
- “Paying particular attention to the strategies deployed by companies and sectors to ensure they are consistent with a climate trajectory compatible with the 1.5°C objective;
- “Rethinking tools to support professional retraining in the context of ecological transition”.

Among the more specific measures, these two organisations mention the establishment of a fund to ensure that the rights of employees are maintained in sectors weakened by the ecological transition, with priority to be given, whenever possible, to the conversion of sites, and better promotion of and guidance towards qualifications and professions that are consistent with the ecological transition.

More broadly, social protection, and the social security system in particular, must make career paths more secure and value lifelong learning: a general review of the welfare state is part of the ecological transition. But it is also a question of restoring the State’s capacity to create new public jobs when necessary and, at the same time, to support visible changes in the “margins” of the workforce. In the final analysis, the ecological transition does indeed imply a more general redefinition of the workplace in our societies; it is a long-term challenge, but many local experiments show the potential of new, complementary forms of solidarity within the welfare state.

4.4. Transition contracts for the most polluting sectors

Air and automotive sectors, extraction and distribution of fossil fuels, highly emitting industries, agrifood chains based on the productivist agricultural model, production and distribution of electricity... Each of these sectors represents thousands of companies but in reality is structured around a limited number of dominant players, pivotal large companies from which networks of service providers and subcontractors cascade out on a national and international scale[29]. The decisions taken by these major players have ripple effects far beyond their own perimeter. When they receive State support, these pivotal actors must commit to a credible trajectory of reducing their ecological footprint (greenhouse gas emissions, resource use, impacts on biodiversity, etc.).

The credibility of these commitments depends on several factors.

[28] Réseau Action Climat and CFTC, “Les reconversions professionnelles, clé de réussite d’une transition écologique juste” [The key professional retraining required for the success of ecological transition], 2017.
[29] For a telling example, see BASIC’s studies on the agrifood sector.

- **Increased environmental reporting monitored** by supervisory authorities. In France, eight independent administrative or public authorities highlight the need to take the climate emergency into account in the definition and performance of their missions[30].

- **Robust assessment methods** incorporating analysis of the product life cycle and the entire chain of activity, including imported impacts, consumption and waste management. This reporting could be based on new tools such as the green taxonomy (supplemented by the brown taxonomy as soon as it becomes available) and indicating proportions of turnover corresponding to the various categories.

- **A strategic plan** setting out the key measures that will enable the company to reduce the environmental impact of its activities with, for example, three-year targets for increasing the proportion of turnover corresponding to the green/brown categories. These measures must also be included in financial reporting and in consultations with staff representatives. For pivotal companies and companies with the highest GHG emissions, this strategic plan should be reviewed by the Haut Conseil pour le Climat.

As an example, these transition contracts would have the following consequences for the following sectors.

- **Automotive sector**: following the recommendations of the Haut Conseil pour le Climat, any aid should be linked to “the conversion of production lines towards non-carbon fuelled vehicles and a reduced carbon footprint over their life cycle, which will also meet more ambitious European pollution standards”. In concrete terms, producers should commit to an immediate halt on the marketing of the most energy-intensive models (especially heavy-duty models such as SUVs), a detailed strategy for phasing out combustion engines, and a plan for investment in more economical vehicles and new transport services.

- **Aviation**: any State support should be accompanied by measures to eliminate domestic flights that can be made by train journeys of five hours or less, e.g. through dissuasive taxation, as well as the definition of a strategy for reducing overall emissions (i.e. not per kilometre travelled). According to the Réseau Action Climat, the end of flights for which there is an alternative train journey of less than five hours would reduce CO_2 emissions from French domestic flights by 60.6% and emissions from flights out of mainland France by 4.5%[31].

4.5. Transformation through standards and taxation

The Covid-19 crisis has prompted many lobbies in favour of deregulation, yet environmental, health and product standards represent an indispensable lever for ecological transition. The same is true for ecological taxation, which is being undermined in France and yet is necessary in order to continue modifying the relative prices of goods and services in a direction that favours the transition. The aim is therefore to increase regulatory and fiscal pressure to transform

[30] These are the following authorities: Competition Authority, AMF, Arcep, ART, CNIL, CRE, CSA and HADOPI. See Accord de Paris et urgence climatique : enjeux de régulation [Paris Agreement and Climate Emergency: Regulatory Challenges], May 2020.

[31] Réseau Action Climat, “Climat : que vaut le plan du gouvernement pour l’aérien?” [Climate: What’s the Government’s Plan for Air Traffic?], May 2020

economic models and production methods, while providing tools to help and promote economic models that are in line with climate and environmental objectives.

4.5.1. Regular review of production and product standards

An upward revision of environmental and health standards is necessary to guide companies on a "transition path" towards production processes and business models that are increasingly compatible with climate and environmental objectives. These legislative or regulatory revisions should concern all key sectors: energy performance for buildings and consumer products, reduction targets for the use of pesticides and fertilisers for agriculture, standards to reduce packaging and waste for producers and distributors, emission standards for technical processes, circular economy target figures for industry, etc.

4.5.2. Ambitious standards for spatial planning

A particularly important point concerns the regulations or obligations of result related to urban development and spatial planning projects. For example:

- To put an end to airport infrastructure expansion projects;
- To reduce the urban space dedicated to the car;
- At the same time, increase the role of collective and "soft" modes of transport, for example by making it compulsory for medium and large cities to deploy cycle lanes in proportion to the number of roads, based on the social housing model,
- To extend the areas protected under the Natura 2000 programme and the 2030 biodiversity strategy.

4.5.3. Rigorous and reliable labelling rules

The increase in environmental standards in the EU internal market must be accompanied by increased traceability for imported products, i.e. more stringent requirements for information on the origin and the social and environmental production conditions of goods and services marketed in the EU. With the exception of certain food products, the information currently available appears very incomplete. Genuine social and environmental traceability throughout the value chain, with, for example, mandatory labelling of origin and basic information about production conditions, could prompt the gradual raising of standards and lead to the marketing of certain products being prohibited.

The EU could, in future, ban goods from its market if their production contributes to deforestation or does not respect the fundamental conventions of the International Labour Organization. Such measures could be challenged by third countries or investors on the basis of WTO law or some of the trade agreements signed by the EU. If this incompatibility were proven, it would be necessary to demand the revision of these rules in order, ultimately, to be able to increase transparency in value chains and gradually put in place rules to discriminate products according to social and environmental criteria based on internationally-defined minimum standards.

4.5.4. A ban on the advertising of polluting products and services

The Convention citoyenne pour le climat (Citizens’ Convention for Climate) suggests, for example, a ban on the advertising of products that emit the most GHGs (like the Évin Law on alcohol and tobacco advertising, but for climate) as well as the removal of outdoor advertising billboards to combat over-consumption.

4.5.5. Green taxation and the closure of tax loopholes

In addition to the regulatory framework aimed at companies, stricter and more-targeted environmental taxation is required to limit the rebound effects of consumption in the most polluting sectors. Examples include increasing the tax on airline tickets or differentiating the taxation of different vehicle models according to their size and emission levels. Or, conversely, to close the many tax loopholes that continue to support the consumption of fossil fuels: tax exemption on kerosene, partial or complete VAT exemption on airline tickets, partial reimbursement of the domestic consumption tax on energy products (TICPE) for road hauliers[32], or the use of tax-based leasing for aircraft or rolling stock in high-carbon transport systems[33].

The carbon tax is a key element of the ecological transition and the level of taxation should be increased, but with a view to the equitable sharing of efforts, whether in the form of a “carbon dividend” or other measures that would protect low-income households. In the short term, given the collapse in world oil prices, a flexible tax should immediately put a floor price on hydrocarbons to reduce the expected rebound effect after lifting lockdown.

4.5.6. Banking and financial sector regulations

Changes to the regulatory and taxation framework should not be limited to the actors of the real economy; parallel pressure should direct financial flows in the direction of investments compatible with the ecological transition. The current regulatory framework is limited to improving market transparency and providing savers and investors with information on the environmental impacts of financial products. These tools will not be sufficient to meet the objectives of the Paris Agreement, which commits signatory countries to make financial flows “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. Further steps include calibrating **prudential rules** and **bank refinancing** conditions to target transition objectives, pursuing a **targeted credit policy** and strengthening the role of **long-term investors**[34]**.**

4.6. A transition-oriented public investment plan

Increasing investment volumes is also an indispensable prerequisite. To make a real contribution to environmental objectives, these investments must focus on transforming lifestyles: allowing alternative ways of heating, eating, travelling and communicating.

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[32] At present, companies using road vehicles of 7.5 tonnes and over for freight transport are eligible for a partial rebate of the domestic consumption tax on energy products (TICPE).

[33] Alain Grandjean, “Revoir les soutiens fiscaux à l’aviation à l’aune du changement climatique” [Revisiting fiscal support for aviation in the light of climate change], Chroniques de l’anthropocène, 11 May 2020

[34] We set out a series of proposals along these lines in the Veblen note on the “Green Deal”.

Numerous studies point to the key sectors in which these investments should be prioritised. In France, the "*Panorama*" drawn up each year by I4CE[35] estimated that the additional annual investment needed to implement the National Low Carbon Strategy (SNBC) and the Multiannual Energy Programme (MEP) would be in the order of €15–€18 billion per year – half of which would come from public funding. These figures probably need to be revised upwards given that France has not met the targets of the first edition of the SNBC (2015-2018)[36] **and the revised targets are themselves insufficient to meet France's climate commitments**. The same picture emerges at EU level: ambitious but unmet policy targets, partly explained by the structural underinvestment revealed by the European Commission's modelling[37].

Nevertheless, several sectors have seen a gradual increase in activity in recent years, with sectors that could grow further, provided they are helped to get through the crisis: urban renewal, renewable energy production, public transport development, organic and local agriculture, etc. These same sectors should, logically, be the focus of efforts to reboot the economy through investment. Another recent I4CE study[38] explores seven sectors: renovation of private housing, renovation of tertiary buildings (public and private), deployment of low-carbon cars, public transport infrastructure, rail infrastructure, cycling facilities and renewable electricity generation.

Indeed, the key priority targets, where public investment would help to reboot economic activities while accelerating the ecological transition, are already well established (the financing of these measures is discussed in the next chapter).

4.6.1. Acceleration of thermal renovation work

It is undoubtedly this sector that should benefit most from public investment. France is not the only country where official targets for thermal renovation have not been met, either in qualitative or quantitative terms. At the current rate of work (288,000 efficient renovations per year, including 40,000 on "*passoires énergétiques*" or highly inefficient buildings), fuel poverty will have fallen by only 8% by 2025 and there will still be 5.8 million *passoires énergétiques* remaining in 2030. In addition, the performance level of current renovations remains low.

4.6.2. Extension of heating and cooling networks

At the crossroads of local policies and the energy transition, these networks can be used to take advantage of a wide variety of local energy resources: recovered energy[39], geothermal energy, local forest resources, cogeneration powered by local methanation units, solar thermal energy, etc. Moreover, the jobs created by the sector are local and spread throughout the country. It is therefore one of the main entries in local energy planning that would boost the economic resilience of local areas while contributing to the development of renewable energies.

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[35] Panorama des financements climat [Overview of Climate Funding], 2019 edition, Hadrien Hainaut & Maxime Ledez, October 2019.
[36] Follow-up to the National Low-Carbon Strategy, September 2019.
[37] "Making the Green Deal work: a social and environmental programme to lead Europe out of crisis", Mathilde Dupré, Julien Hallak & Wojtek Kalinowski, March 2020.
[38] Investir en faveur du climat contribuera à la sortie de crise [Investing for the climate will help us get out of the crisis], Hadrien Hainaut, Maxime Ledez, Quentin Perrier, Benoît Leguet & Patrice Geoffron, April 2020
[39] Residual, unused heat produced by industrial processes.

4.6.3. Development of public and intermodal transport systems

The current rescue packages are far more concerned with car manufacturers and airlines than with public transport or railway companies[40]. Yet it is in the latter sector that investment needs are the greatest and most urgent. In France, the report of the Haut Conseil pour le Climat regrets “massive under-investment in the maintenance of the French rail network” with “consequences for the safety of passengers, goods and quality of service”. But the issue is also a European one; rail links and night trains should be at the heart of the investments planned in the Green Deal presented by the European Commission, especially as it is in this area that under-investment is most glaring.

In economic terms, the profitability of investments will depend on the selective degrowth of other sectors: the increased rail, tram and intermodal transport offer must replace some car travel and short-haul flights.

4.6.4. Restoration of rail and river freight

A particular challenge for transport investment concerns freight via rail and inland waterways, which account for 9% and 4% respectively of freight transport in France. French operators are proposing to double the proportion of rail freight by 2030, and the subject is also mentioned in the European Commission’s Green Deal, which requires an increase in the resources of the Trans-European Transport Network programme, although it does not define any target figures for this.

4.6.5. Development of local agriculture

The “Farm to Fork” strategy for sustainable food, published by the European Commission on 20 May[41], aims to increase the proportion of agricultural land used for organic farming to 25% by 2030 and to reduce the overall use and risk of chemical pesticides by 50% by 2030. Many questions remain, however, about the means of implementation and the way in which this objective will be reflected operationally within the context of the ongoing review of the Common Agricultural Policy.

The focus on so-called precision agriculture – cited at the top of the list of “sustainable practices” before agro-ecology or agro-forestry – is provoking strong reactions. This concept, which is still poorly defined, refers to the use of high-tech solutions (including satellites, drones, vehicle-mounted technologies, big data and artificial intelligence) to optimise and monitor agricultural systems. While these solutions can, theoretically, reduce the use of chemical inputs, their high cost may further encourage intensification of production. Not to mention that these solutions are often developed by the economic actors who are currently marketing the inputs.

The other major limitation of the Commission’s strategy is the omission of the fight against intensive production and excessive consumption of meat and dairy products. However, as the Haut Conseil pour le Climat reminds us, the conversion of the agricultural model must be built on a food policy aimed at reducing the consumption and importation of animal products. At the same time, it is also necessary to reduce the dependence of European livestock farmers on

[40] With the notable exception of Germany, which spent €7 billion to rescue Deutsche Bahn.

[41] European Commission, “Farm to Fork Strategy – for a fair, healthy and environmentally-friendly food system”, 20 May 2020

imports of protein for animal feed – particularly soya, which accounts for a significant proportion of our contribution to imported deforestation.

The conversion of the agricultural model is based, inter alia, on an ambitious land policy aimed at preserving and increasing agricultural production situated in the vicinity of conurbations and converted to an organic model. For the environmental damage caused by productivist agriculture is closely linked to downstream processing and distribution: to move away from intensive monocultures, we need to create shorter supply chains.

Local agriculture requires local land. However, in many cases, land pressure is too strong for local elected officials to resist, and social and solidarity economy initiatives are not numerous enough to replace State action. The State must, therefore, both define performance obligations in this area and provide communities with the financial tools to achieve them. The public expenditure dedicated to the land policy necessary for the agricultural transition – right of pre-emption, compensation of owners, land reclassification, etc. – is an investment in land control in the service of effective ecological planning.

4.6.6. Protection of biodiversity

The new Biodiversity Strategy[42] published by the European Commission on 20 May is another important pillar for building the resilience of our societies and preventing the emergence of new zoonoses. This strategy also sets ambitious targets for 2030. In addition to those already mentioned in the complementary "Farm to Fork" strategy, it contains the following measures.

- Protection measures: protect 30% of land and seas in the EU (up from 26% and 11% currently) with enhanced protection for sites with high biodiversity value (at least one third of these land and marine areas such as primary and old-growth forests, peatlands, marshes or grasslands), etc.
- Restoration measures: ensure that at least 10% of agricultural land is under high-diversity landscape features, plant 3 billion trees, restore 25,000 km of rivers into free-flowing rivers, develop plans for the greening of urban space by the end of 2021 for European cities with more than 20,000 inhabitants, etc.

Many key elements for the deployment of this strategy still need to be specified by 2021 (legally binding objectives for the restoration of nature, criteria and guidelines for the designation of additional protected areas, revision of national biodiversity strategies and action plans; a European "zero pollution" action plan for air, water and soil, legislative proposal against imported deforestation, etc.).

The quality of this strategy will therefore depend directly on how it is implemented in practice, with the Commission itself explicitly recognising the poor results achieved by the many initiatives developed so far.

In financial terms, it estimates needs at a minimum of €20 billion per year (national and European, private and public). And it also announces that the Union's taxonomy on sustainable finance will have to evolve in 2021 to establish "a common classification of economic activities that substantially contribute to protecting and restoring biodiversity and ecosystems". In this

[42] European Commission, "EU Biodiversity Strategy for 2030. Bringing nature back into our lives", 20 May 2020

area, as in the climate component, we recommend that this green taxonomy be supplemented by a brown taxonomy designating harmful activities.

For this strategy to be implemented, it is now up to the Member States to strengthen the protection of degraded ecosystems. This includes a rapid increase in the number of natural areas, both land and sea, protected and integrated into the European Natura 2000 network, but also better protection of areas already covered by this label and spatial planning that is mindful of increasing biodiversity in urban areas.

Protecting biodiversity is essential to preserving the ecosystems and nature’s services on which we depend for our very survival. While the financing of these measures is not an investment in the financial sense of the term, the associated public expenditure is motivated by the climate and environmental objectives that form part of the European Green Deal.

4.6.7. Climate change adaptation measures

In addition to the mitigation measures discussed above, States and the EU must finance many measures to adapt to the unavoidable consequences of climate change, for example coastal and flood protection and the installation of sewage systems that are resistant to changes in rainfall patterns.

4.6.8. Investments in public services

This list of investments likely to support both economic activity and transition objectives should include investments in public health, care and education, both the renovation and modernisation of public and para-public infrastructure and the financing of an action plan to expand the supply of services or improve their quality and equality of access. In the longer term, the financing of the French welfare state must obviously rely on additional and sustainable resources and not on the public debt or monetary financing discussed in the next chapter. Although the 2020 Amending Finance Bill provides for a one-off €2 billion in aid for hospital services, the resources cannot come from a tax reform that restores progressive tax on a long-term basis.

4.7. Supporting transition at local and regional level

Local and regional authorities played a major role during containment to ensure the continuity of a number of activities and to help the most vulnerable populations. As the case of local energy planning discussed above shows, they must also be at the heart of a “top-down” exit strategy from the crisis, accelerating rather than hindering the ecological transition.

4.8. Supporting citizen initiatives

It is often at the local level that many citizen projects in favour of transition are deployed. In this respect, the social and solidarity economy provides many examples of social innovation that help transform the economy. These actions should receive greater support from the State, for example through increased channelling of employee savings towards projects of this type.

4.9. Using the leverage of public procurement

Public procurement, which accounts for around 15% of European GDP, could become a strategic lever for supporting employment, the local economy and ecological transition, provided that it is possible to introduce not only social and environmental criteria but also criteria relating to tax, geographical proximity and sustainability. In order to give States and local authorities more room for manoeuvre, the EU could take inspiration from US laws such as the "Buy American Act" or the "Small Business Act", which allow public procurement to target national companies or even SMEs, adding an environmental dimension. A European "Buy Sustainable Act" would enable public procurement to be used to encourage national and local enterprises and agricultural systems to transform their production models to make them cleaner and more sustainable, while promoting local employment and thus strengthening the social acceptability of the ecological transition. Provided, of course, that we loosen the stranglehold of trade policy in this area by revising multilateral trade rules and bilateral trade agreements.

5. Financing the transition effort

The previous chapters have outlined an exit plan consistent with the challenges of transition and necessary to ensure dignified living conditions for all in a world with limited resources. Such a scenario explicitly assumes that this exit from the crisis will be longer and more costly than a "return to normal" scenario due to the decline of certain sectors and the transformation of lifestyles. It involves extraordinary macroeconomic conditions for an indefinite period of time: a significant fall in GDP and tax revenues, and additional costs for social security and measures to accompany selective degrowth. It refers to funding challenges equivalent to those experienced in the past by States forced to finance war efforts, for which solutions were ultimately found.

For example, to finance the First World War, the United Kingdom was forced to increase its public debt by the equivalent of 100% of British GDP at the time. An additional effort of this scale probably needs to be made if we actually want to lead the transition and compensate for the loss of income that it involves[43].

In what follows, we focus only on the share of funding provided by public expenditure at various levels (local, national and European), and do not address the issue of private funding.[44]

Several solutions exist to enable States to finance the transition effort:

- **A quasi-perpetual or "melting" debt, with or without mutualisation on a European scale**;

[43] It should be noted that the modelling carried out for the European Commission estimates financing needs at 8% of GDP by 2030, not including the need to finance the loss of income. "Making the Green Deal work: a social and environmental programme to lead Europe out of crisis " , op.cit, p. 9.

[44] As far as private finance is concerned, the fundamental problem is the profitability calculation itself, which remains largely blind to the climate and environmental costs of private profits. Instead of trying to "incorporate" the transition into an often truncated economic model, strong measures are needed to change the incentives of the financial system: this role belongs to the legislator, the ECB and European and national regulators. See "Making the Green Deal work: a social and environmental programme to lead Europe out of crisis", Wojtek Kalinowski, Julien Hallak & Mathilde Dupré, Note by the Veblen Institute, March 2020.

- **Monetary financing**, i.e. direct repurchase by the central bank of bonds issued by the State;
- **Cancellation of public debts**, limited to debt held by central banks or extended to private creditors;
- **“Helicopter money”**, where the central bank creates money and pays it directly to the State as well as to households and even businesses, without going through the banking system.

In practice, a combination of several of these measures may prove necessary; regardless of which option is chosen, various preconditions must be met:

- State financing must go hand in hand with **budgetary coordination at European level**, to ensure that the expenditure genuinely contributes to the transition effort;
- Financing through money creation must be complemented by **fiscal measures** aimed at increasing States’ capacity to finance their actions from their own resources;
- **States** must also be **protected from the risk of disputes with foreign investors** on the basis of investment protection treaties. Indeed, the funding discussed below should not be used to compensate for investments that contribute to the climate and environmental crisis.

5.1. Quasi-perpetual or “melting” debt

The first solution represents the continuation and expansion of measures already taken by States and central banks. We are talking about *quasi* perpetual debt to signal that it is not a question of issuing hundred-year bonds, but of relying on the action of central banks to maintain refinancing conditions that are as favourable as they are at present on a lasting basis. Under certain conditions, these debts can even become “melting”, i.e. gradually decrease without ever being repaid.

In this scenario, government debt therefore increases sharply; nevertheless, the associated financial burden can remain bearable, bringing the euro area closer to the Japanese scenario (Japan’s government debt currently stands at around 240% of GDP). Even with a prolonged and costly transition period at the macroeconomic level, indebtedness would be expected to stabilise and then decrease.

The financial burden over the period would be all the more bearable because a growing proportion of sovereign debt would end up on the balance sheets of central banks, which pay the bulk of interest income to the government.

Indeed, the cost of public debt has been falling steadily over the last ten years in Europe. In 2019, it represented 0.7% of GDP for Germany (for a debt amounting to 63% of German GDP), 1.4% for France (for a debt amounting to 100% of French GDP) and 3.4% for Italy (where public debt represents 137% of GDP), the highest rate within the euro area. As such, the aim of mutualisation would be to bring all the countries of the euro area, or even the EU, closer to the conditions currently enjoyed by Germany and a few other countries in similar situations.

Since the launch of the ECB's government bond purchase programmes, part of the government debt can, as such, already be considered quasi perpetual, since there is no indication that central banks' balance sheets are set to decline in the years or decades to come. Whether purchased directly by the ECB (20% of the purchases under the PSPP programme) or by the national central banks (the remaining 80%), this part of public debt escapes the pressure of the financial markets since, at the same time as it announced the end of QE (December 2018), the ECB committed itself to maintaining the volume already purchased on its balance sheet. When a debt security held by the ECB matures, therefore, the money collected from the State is immediately reinvested in another debt security of the same State. Since then, in addition to the renewal of the initial QE volumes, two new purchasing decisions have been made[45], bringing the additional purchasing volume scheduled for 2020 to €240 billion.

Three conditions for viability

However, as mentioned above, this scenario is only viable if refinancing conditions remain equally favourable in the coming decades.

At the macroeconomic level, it is reliant on the continuation of the current conditions of "secular stagnation": increasingly low productivity gains, low inflation and an abundance of global financial savings keeping nominal interest rates very low.

Politically, it is based on the gamble that the rules of the Stability Pact (limiting debt to 60% of GDP and public deficit to 3% of GDP on average over an economic cycle) are now outdated: even if the Member States do not reach a formal agreement to renegotiate them, they have lost their binding force. These rules, which were already seeming less and less relevant before the recent crisis, were provisionally suspended in March this year. However, it would be risky to assume that this suspension will calmly evolve into a new, permanent state. To permanently loosen the constraint, the treaties would have to be renegotiated, or at least the flexibility of interpretation of the rules, to which the European Commission already agreed before the crisis, would have to be made use of, by explaining that certain public investments linked to the Green Deal could be not counted as debt. The investment plan, the key elements of which are set out above, should take full advantage of this new interpretation of the rules.

Last but not least, this scenario relies on the continuation and even strengthening of the actions of the ECB and other European central banks. The observed decline in the debt burden is the natural result of the expansive monetary policy pursued by the ECB and other central banks for more than a decade. The first key decision in this respect was the announcement, in 2012, of an emergency monetary programme, the OMT[46], aimed explicitly at reducing interest rate differentials within the euro area. In line with the then President Mario Draghi's promise to do "*whatever it takes*", this was the ECB's practical commitment to do whatever it took to preserve the unity of the euro area.

A monetary policy calibrated to reduce the discrepancies in the interest rates demanded by the markets from borrowing States differs from other monetary easing programmes, where the aim is, in theory, only to achieve the inflation targets for the euro area as a whole. It remains

[45] From November 2019, the ECB will purchase assets for an additional €20 billion per month. Also, in March this year, the ECB decided on an additional purchase of 120 billion in 2020

[46] The Outright Monetary Transactions programme was never put into practice, but its very announcement contributed to lowering interest rates in the most exposed countries by 2 points.

controversial in several eurozone countries, particularly in Germany. While the OMT has been declared compatible with the ECB’s mandate by the EU Court of Justice, the recent ruling of the German Constitutional Court has dramatically reopened the debate just as the ECB was opening a new Pandemic Emergency Purchase Programme (PEPP), which has similarities with the OMT. This scenario therefore presupposes that the European institutions succeed in reaffirming and establishing the legitimacy of the ECB’s action on a lasting basis.

The ECB’s second key decision was to launch the sovereign debt asset purchase programme in 2015. The proportion of French public debt held by the Banque de France, for example, increased rapidly in the 2010s and now stands at around 20%. In the context of macroeconomic stagnation and a general decline in interest rates, these massive purchases have helped to reduce the financial burden of debt (in addition to the increase in payments by central banks to governments of most of the interest income received, as mentioned above).

In summary, the continuation of the current policy is therefore the “easiest” solution in theory, in the sense that it does not imply any change in the system or negotiation between creditors and debtors. It is, however, based on the assumption of near-zero refinancing costs for decades to come, which will depend as much on the macroeconomic context as on political developments in the EU.

For macroeconomic as well as political and legal reasons, the ECB’s action may prove insufficient in the future to finance public debt, to maintain the unity of the euro area and to protect vulnerable States from the pressure of financial markets. The mutualisation of debts within the euro area, which falls under the responsibility of the Member States and not of the ECB, would greatly help the ECB to continue financing the transition effort.

5.2. European mutualisation

Despite the actions of the ECB, borrowing countries remain structurally unequal vis-à-vis the financial markets. Interest rate differentials have narrowed but may widen at any time, as the rating agency Fitch has just reminded us by lowering the Italian government’s rating very close to the junk bond threshold. As a result, Member States’ margins for manoeuvre to finance the transition effort remain very unequal.

For most European States, a favourable balance of power vis-à-vis creditors could only come from the protection offered by a mutualisation of debt or at least interest rates within the EU or at the eurozone level. Repeat interventions by the ECB up to this point have helped to limit interest rate differentials between “North” and “South”, but, as we have seen, these interventions remain controversial.

Mutualisation would make the scenario of a “melting” debt more plausible by offering negative real interest rates to all Member States in the zone, or even to the EU as a whole.

Technically, mutualisation can take several forms. Firstly, it may concern only the interest rates or the debt itself. Secondly, when the debt is mutualised, the mutualised portion may vary. For example, the “modest proposal” published by James Galbraith, Stuart Holland and Yanis Varoufakis in 2010 suggested that the debt of Member States, up to a limit of 60% of GDP, should be transferred to the EU, with the remaining debt to be managed by the States. At the

time, it was a question of finding a compromise between the two philosophies clashing within Europe and blocking any progress: the need for solidarity in the face of the imbalances from which the eurozone suffers, on the one hand, and the need to maintain an element of "market discipline" to avoid a headlong rush towards ever more debt, on the other.

In the current circumstances, the 60% threshold has lost its relevance and mutualisation must pursue the logic underlying the Franco-German proposal, i.e. to allow joint financing of a transition effort which is itself decided jointly, or at least via closely coordination between Member States and evaluated by the European Commission and the European Parliament.

5.3. Direct financing of States by the central bank

Direct financing – via credit lines or purchases of bonds at the time of issue, without going through the financial markets – has never entirely disappeared from modern economies. In the United Kingdom, an overdraft line accessible to the State has existed, uninterrupted, at the Bank of England since 1694, and the overdraft facility has just been extended from £20bn to £200bn as part of the fight against the effects of the health crisis. In the case of the euro area, however, this option would require a renegotiation of the Treaties, as the monetary financing of States by the ECB is prohibited by Article 123-1 of the TFEU[47].

Without financing States directly, the ECB could buy more sovereign debt to reduce States' dependence on the markets' willingness to hold this debt on bank balance sheets and investment fund portfolios. The recent PEPP programme takes a further step in this direction, by giving the ECB the option exceed the limit initially set (33%) for each government's debt holdings.

The prohibition on monetary financing does not apply to public banks, which can access refinancing in the same way as other banks. Development banks are the first long-term investors and as such are called upon to play a key role in financing the ecological transition. But the expansion of their balance sheets ultimately depends on central bank refinancing: long-term investments present different risks from the search for liquid assets and short-term investments by private investment banks, and require appropriate refinancing conditions. In this respect, Article 123-1 TFEU specifies that they may not benefit from any special treatment.

However, direct State financing may prove necessary if central bank market operations become less effective, i.e. if the ECB is no longer able to limit interest rate differentials within the euro area, and if the markets refuse to finance the mutualised debt at negative real interest rates. In view of the political difficulty of renegotiating the Treaties, this scenario might actually unfold as a disorderly disintegration of the euro area, with all the negative effects that could produce.

5.4. Cancellation of public debts

This solution can take several forms, limited to debt held by central banks or including private creditors also in a more general restructuring.

[47] "Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as "national central banks") in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments."

5.4.1. Cancellation of debts held by central banks

Many of the proposals currently being put forward focus on the first option: in the interview that accompanies this note, Laurence Scialom and Baptiste Bridonneau[48] propose, for example, a partial or total cancellation of the sovereign debt held by the ECB and the central banks belonging to the Eurosystem. The ECB would permanently donate the redemption of the securities in question to the States, so that the creation-destruction cycle which defines bank credit money would be interrupted: the money created at the time of the purchase of these securities on the secondary markets would never be destroyed.

As these and other authors point out[49], such a cancellation could be calibrated in several ways according to the objective deemed to be a priority:

- Environmental conditionality, to ensure that the margins for manoeuvre created are used to finance the ecological and social transition;
- In the context of the current crisis, these cancellation plans could vary according to the extent of the recession suffered by the countries in question, in order to respond to the asymmetries caused by this shock;
- Priority investments could be decided at European level to coordinate the States' actions and prioritise objectives beneficial to the euro area or the EU as a whole.

This proposal is complementary to the other solutions discussed here but, in itself, remains insufficient, simply because the transition effort described above requires much more significant amounts of funding. The ECB and the central banks belonging to the Eurosystem currently hold between 20% and 30% of the sovereign debt of the various countries in the euro area: in the case of France, cancelling the debt held by the Banque de France would reduce government debt from 100% of GDP to 80%, or rather it would prevent the increase forecast for the years 2020-2021. The question of financing the States' actions would remain unresolved and would require the operation to be repeated on a regular basis.

5.4.2. A more general restructuring of public debt

The other variant of cancellation is to broaden its scope to a more general restructuring, including both public and private creditors. Without Europe-wide mutualisation or other measures discussed in this chapter, such restructuring – which in practice amounts to a partial default by a State – seems inevitable and even desirable for some "small" States such as Greece. But, for the euro area as a whole, a substantial cancellation of public debt would reduce the size of the assets in the balance sheets of the institutions holding it: universal banks, pension funds, insurance companies, etc.

In turn, and in order to avoid a chain of bankruptcies, this reduction would have to lead to an equivalent reduction in the liabilities side of their balance sheets, i.e. their debts to investors and, ultimately, to individual savers and custodians of bank deposits. The fact that a very limited proportion of European public debt is held directly by households should not conceal the

[48] The authors set out their proposals in a note from Terra Nova: "Des annulations de dette publique par la BCE : lançons le débat" [Public debt cancellation by the ECB: opening the debate], 18 April 2020.
[49] This proposal is also made by other authors; see for example Alain Grandjean and Nicolas Dufrêne, *Une monnaie écologique* [An Ecological Currency], 2020, Odile Jacob

interdependencies that, through financial intermediation, connect government debt to the savings of households and individuals.

The weight of global financial savings has certainly become excessive, and debt restructuring is practised regularly throughout the world. In theory, it is arguably possible to distinguish between those considered priority creditors and creditors with less priority, such as household savings plans vs bonds held by institutional investors. Clearly, these institutional investors have, in turn, contractual obligations to other individual savers, so the problem is simply shifted. Above all, however, in a European context of economic and financial imbalances between a "North" that is accumulating financial assets and an increasingly indebted "South", a substantial reduction in assets would inevitably hit European savers asymmetrically, which could further fuel populist fires and threaten the future of the euro area.

One way to get around this problem would, again, be to ask central banks to intervene by compensating creditors through money creation. But this would then be the helicopter money discussed in the next section.

5.5. "Helicopter money" for Member States

Helicopter money is not a new form of central bank money or a new way of creating it, but a different way of distributing it and pouring it into the economy, without going through the banks and financial markets. In a Veblen note, Jézabel Couppey Soubeyran[50] proposes the use of direct money transfers made by the central bank to governments, individuals and even businesses.

During the phase focusing on rescuing the economy and gradual lifting of lockdown, helicopter money should go to the States, to monetise public spending. Then, in a second phase, to reboot the economy, helicopter money could be paid directly to households and businesses to increase private spending without delay and without transmission failure, while continuing public spending to counter the depression and prepare for the future.

As regards helicopter money for States, this means of monetising public expenditure could be linked to ecological conditions, as with the cancellation of previously contracted debts. For example, this could involve requiring beneficiary States to focus their additional spending on areas identified as priorities for the European Green Deal. This new expenditure is part of the States' budgets and must therefore be coordinated at European level, in particular within the framework of a reformed European Semester, integrating social and environmental indicators and focusing on the objectives of the Green Deal.

Compared to quasi-perpetual debt and debt cancellation, this proposal has several additional advantages:

- It takes away the unjustified returns made by banks and financial markets that buy debt and immediately sell it to central banks;
- The volume is not limited by the stock of debt already held by central banks;

[50] "Helicopter money" to combat economic depression in the wake of the health crisis, Note by the Veblen Institute, April 2020.

- Monetisation is independent of the stock of outstanding bonds on the financial markets and the decisions of financial players.

This option is technically feasible, and indeed legally possible, insofar as the European Treaties, which prohibit the ECB from lending directly to the States, make no mention of a situation in which the ECB gives money directly to the States. Moreover, the transfer of central bank money to companies and individuals is not mentioned by the texts either, and is therefore not prohibited by them.

5.6. Increasing fiscal resources

Financing through money creation must be complemented by fiscal measures aimed at increasing States’ capacity to finance their actions from their own resources. While the 2008 crisis prompted new efforts to combat tax evasion and avoidance, it also led to tax systems becoming increasingly regressive, notably through the gradual reduction of corporate tax rates and an increase in value added tax rates.

In the face of the unprecedented crisis affecting public finances, exceptional fiscal measures could be introduced. Similarities can indeed be identified with times of war, during which “conscription of wealth” measures were put in place to compensate for the heavy human toll paid by individuals at the bottom of the social ladder. Options to be considered include, for example:

- An extraordinary tax on companies whose turnover increased during the pandemic, such as Amazon or Netflix or companies in the video games sector;
- An extraordinary tax on assets. A single flat-rate tax of 2% on the highest assets could yield revenues of around €100 billion[51]. As far back as 2013, Thomas Piketty[52] suggested an extraordinary progressive tax on assets to absorb European debts by collecting around 20% of European GDP: 0% up to €1 million, 10% on the portion of assets between €1 million and €5 million, and 20% on the portion over €5 million. Such a scale would not be very different from the one applied for the extraordinary levy on capital imposed in France in 1945.

We proposed above that, to strengthen ecological taxation, taxes on polluting activities such as aviation should be increased, environmentally harmful tax loopholes should be closed, and the carbon tax, in this period of low oil prices, should be revived, for example by redistributing part of the income to the poorest households.

At the same time, States must take advantage of the new context to step up the fight against tax evasion and avoidance. At European level, the tax revenue losses resulting from tax avoidance strategies employed by multinational companies have been very conservatively estimated at between €50 and €70 billion per year[53]. In this area, the Council is blocking the proposals advocated by the European Parliament to require full country-by-country

[51] C. Chavagneux, La France testée positive aux inégalités [France has tested positive for inequalities], Alternatives Economiques, 19 May 2020
[52] T. Piketty, “Le Capital au XXIe siècle” [Capital in the 21st Century], Editions du Seuil, 2013
[53] A. Cobham and P. Janský (2017), “Global Distribution of Revenue Loss From Tax Avoidance: Re-Estimation And Country Results”, WIDER Working Paper 2017/55 Helsinki: UNU-WIDER.

transparency of companies' activities[54]. The current crisis should be an opportunity to finally introduce a country-by-country public reporting obligation for multinational companies, similar to that required from European banks since 2013. The full structuring of enterprise groups should be made public, as well as all owners and beneficial owners. In addition, the European Union should work urgently on common rules for calculating the corporate tax base to end tax competition between Member States and on the gradual convergence of effective corporate tax rates to prevent them from falling even further, or even to increase them. Finally, the EU should take much more resolute action against tax havens within the EU.

At the international level, France and the European Union must promote an ambitious reform of international tax rules to combat tax evasion and avoidance and the artificial transfer of profits effectively. Such reform must be carried out within a multilateral framework that allows all countries to participate in the discussions on an equal footing. The aim now is to move away from the system of full competition and to establish rules for the fair reallocation of tax rights between developed and developing countries. These new rules should apply to all economic sectors and not only to digital sector players. The formula for distributing the overall tax bases of multinational groups between countries must take into account, in a balanced way, production and consumption factors, as well as the number of employees. And States must agree on a minimum effective corporate tax rate to end the fierce tax competition between them.

5.7. Protecting States from the risk of foreign investor complaints

Any economic crisis is conducive to the filing of claims by investors who feel aggrieved by States, claims made through private courts under investment protection treaties. For example, Argentina after the 2001 crisis, Greece and Spain after the 2008 crisis, and the countries affected by the Arab Spring in 2011 have all suffered multiple attacks[55]. Some of these lawsuits have been brought by purely speculative investors, advised by business lawyers looking for lucrative cases.

The crisis we are currently experiencing, with the containment of more than 3 billion people on the planet in response to the Covid-19 pandemic, will be no exception. The exceptional measures taken by States in this pandemic management phase and subsequently in the recovery phase will certainly disrupt the business environment in which investors are operating and could be considered violations of the commitments undertaken by States in investment protection agreements. Consequently, the United Nations Conference on Trade and Development (UNCTAD) is warning States that: "Although these measures are taken for the protection of the public interest and to mitigate the negative impact of the pandemic [...] some of them could [...] expose governments to arbitration proceedings initiated by foreign investors[56]." For their part, arbitration specialists are increasing the number of publications on this subject to encourage investors to examine the various opportunities.

[54] Eurodad and Financial Transparency Coalition (2019), "EU Country by country reporting. Overview of the political process and existing country by country reporting", Briefing paper.

[55] CEO and TNI, "Profiting from crisis. How corporations and lawyers are scavenging profits from Europe's crisis countries", March 2014

[56] UNCTAD, "Investment Policy Responses to the COVID-19 Pandemic", Investment Policy Monitor, special issue no. 4, May 2020

While the future remains uncertain, **the response to the COVID-19 pandemic is likely to violate various protections provided in bilateral investment treaties ("BITs") and may bring rise to claims in the future by foreign investors**", states an article published by the international arbitration firm Aceris Law[57].

Certain measures such as the requisitions of hospitals, the use of compulsory licences to facilitate the manufacture of medicines, price controls for certain medical equipment, bans on water cuts for households and the deferral of charges or rents are already the subject of controversy flagged by these arbitration specialists[58].

In an appeal[59] published by the Columbia Center on Sustainable Investment, several prominent figures, including Olivier De Schutter, UN Special Rapporteur on Extreme Poverty and Human Rights, and Jeffrey D. Sachs, Professor at Columbia University, call for a moratorium on all arbitration claims by foreign investors against governments using international investment treaties, and a permanent restriction on all arbitration claims related to government measures addressing the health, economic and social dimensions of the pandemic and its effects. In their opinion, such disputes are unjustifiable in the current situation and would only distract States from their priority tasks and aggravate the budgetary crisis.

Experts from the International Institute for Sustainable Development are recommending that States try to take measures to protect themselves[60]. This could take the form of announcements to withdraw their consent to investor-state arbitration or joint statements to suspend this mechanism for all measures related to the Covid-19 pandemic.

Beyond the current health and economic crisis, there have been a number of other calls to end these investment arbitration mechanisms and, in particular, to end the protection of investments in the fossil fuel sector, particularly in the context of the ongoing negotiations on the modernisation of the Energy Charter Treaty[61]. Otherwise, taxpayers would find themselves obliged to compensate losses related to stranded assets, as part of the energy transition necessary to meet the Green Deal objectives.

All these proposals should be seriously considered without delay. Furthermore, the EU should not include any such investor-state dispute settlement mechanism in any of the agreements currently in preparation, such as the CETA, the new EU/Mexico trade agreement and the EU-China Comprehensive Agreement on Investment.

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[57] Aceris Law LLC, "The COVID-19 Pandemic and Investment Arbitration", 26/03/2020
[58] TNI and CEO, Cashing in on the pandemic. How lawyers are preparing to sue states over COVID-19 response measures, 19 May 2020
[59] P. Bloomer, J. P. Bohoslavsky, C. Correa, O. De Schutter, K. Kennedy, J. D. Sachs, M. F. Espinosa Garcés, Call for ISDS Moratorium, May 2020
[60] N. Bernasconi-Osterwalder, S. Brewin and N. Maina, "Protecting Against Investor-State Claims Amidst COVID-19: A call to action for governments", IISD, April 2020
[61] M Dupré, J. Hallak and W. Kalinowski (2020), op cit.