Solidarity without conditionality? European safety nets in comparison

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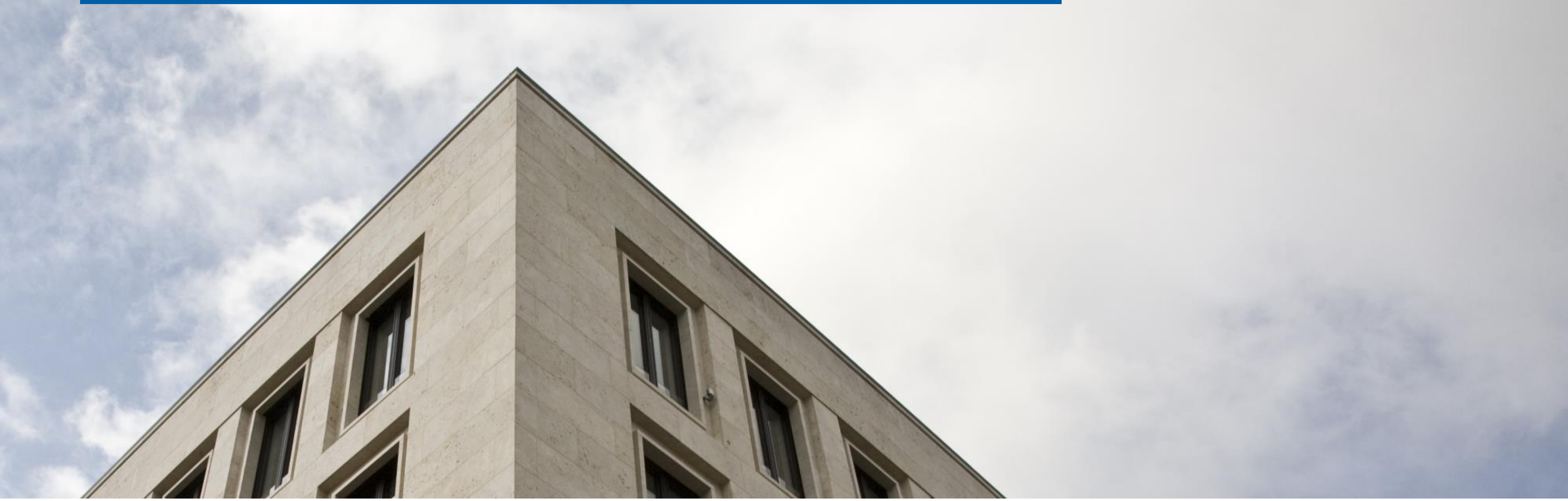
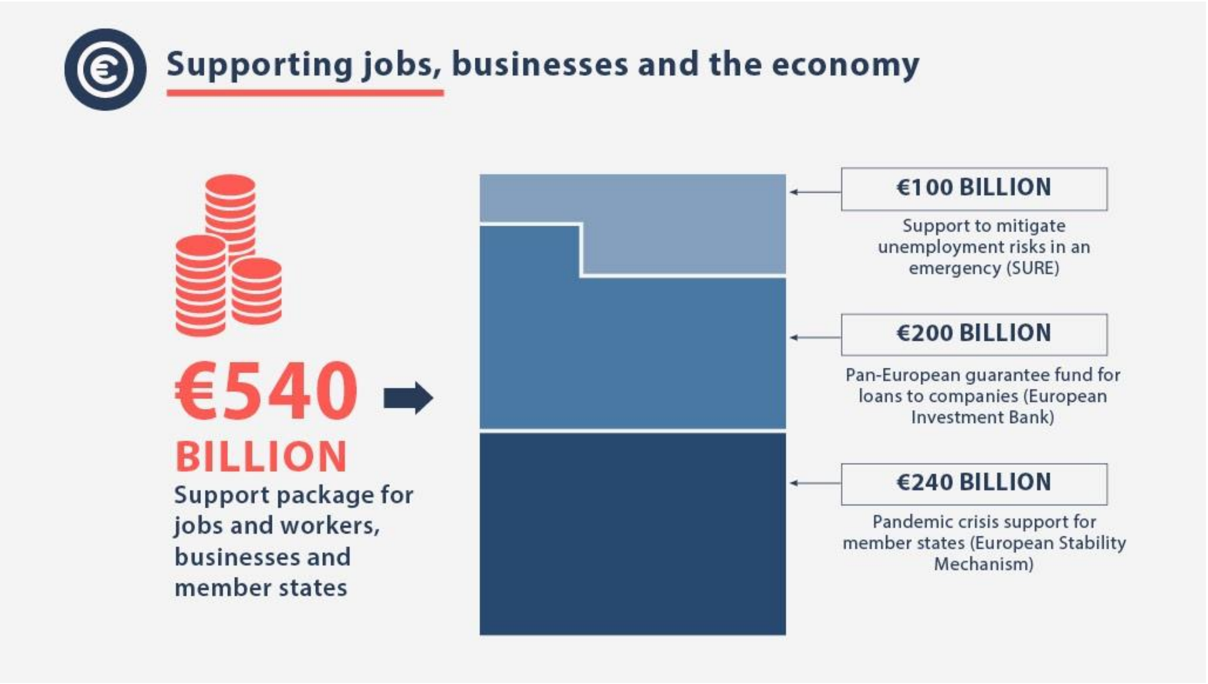


Overview



Source: European Council

- “Safety nets”, “solidarity instruments”, “backstops” for workers, businesses, sovereigns
- Eurogroup 7-9 April
- Actors: Eurogroup (inclusive), Commission, ECB, ESM, EIB
- Immediate crisis response → Bridge the gap to NextGenEU

Theoretical outline

1. Types and importance of EU/EMU solidarity
   - monetary solidarity: risk-sharing (Schelkle 2017)
   - fiscal solidarity: common ressources
   - social solidarity: redistributive policies (Baldwin 1990)
2. Types and importance of EU/EMU conditionality
   - Stability and Growth Pact, Fiscal Compact, Two-pack, six-pack
   - Labour market liberalisation and cuts to social protection (Blyth 2015, Pavolini, León et al. 2015, Sacchi 2015, Theodoropoulou 2015, 2018)
3. Solidarity gap and fiscal solidarity preferences
   - Majority support for fiscal solidarity, when accompanied by Social Investment (Vandenbroucke, Burgoon et al. 2018, Kuhn, Nicoli et al. 2020)
   - Italians prefer eurozone exit to strict conditionality (Baccaro, Bremer et al. 2021)
   - Less support for fiscal solidarity in poor countries (Vasilopoulou and Talving 2020)
4. Core-periphery (Magone, Laffan et al. 2016)
   - North/South divide (Scharpf 2015, Pérez 2019, Regan 2015)
   - Various concepts:
     - rule maker – rule taker
     - creditor – debtor
     - net payer – net receiver

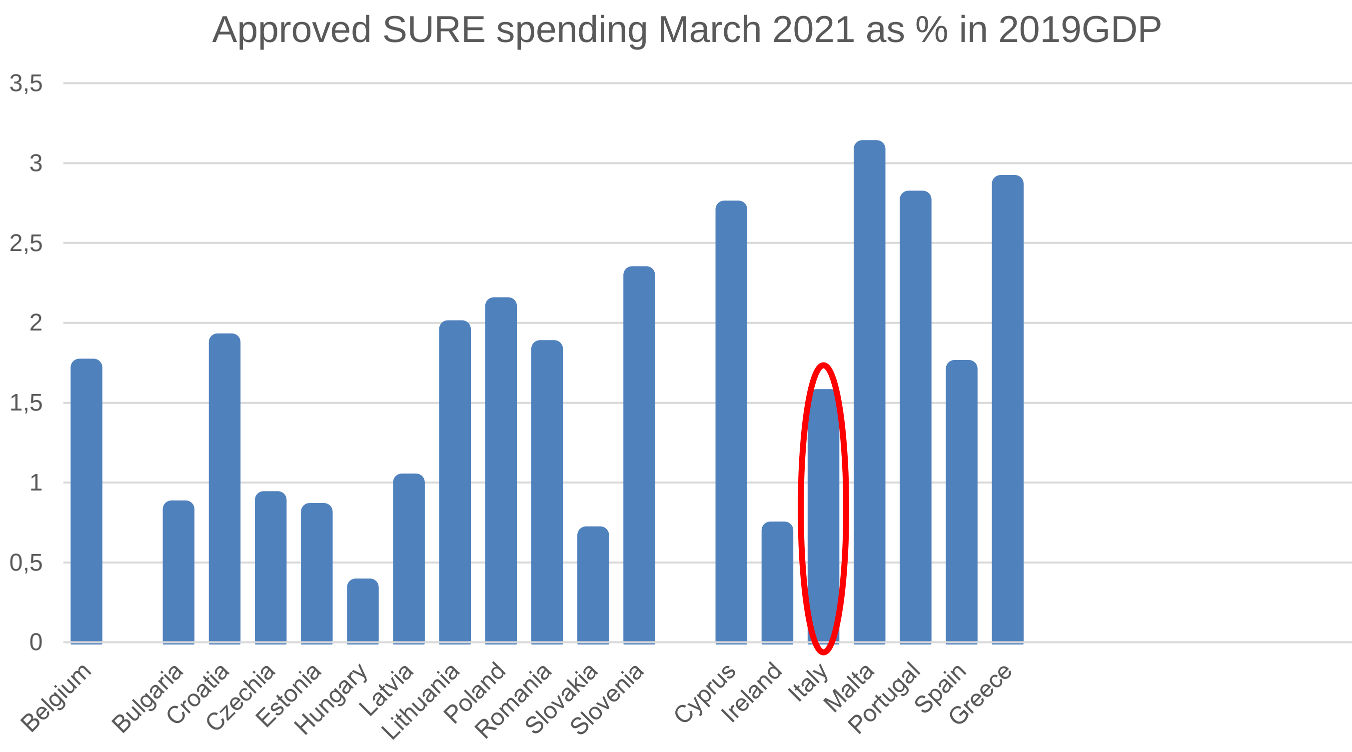
Research Outline

- How do instruments compare to each other and prior financing instruments?
    - Scope, generosity, target groups, conditionality, loan maturity, ESG component, access, availability
- How are they used by respective target groups, i.e. member states and businesses?
    - Applications, imbursements, target groups (in practice)
- Do they constitute new forms of European financial solidarity?
    - Long-term institutional trends?
    - Restricted conditionality?
    - New paradigm for Social Europe?

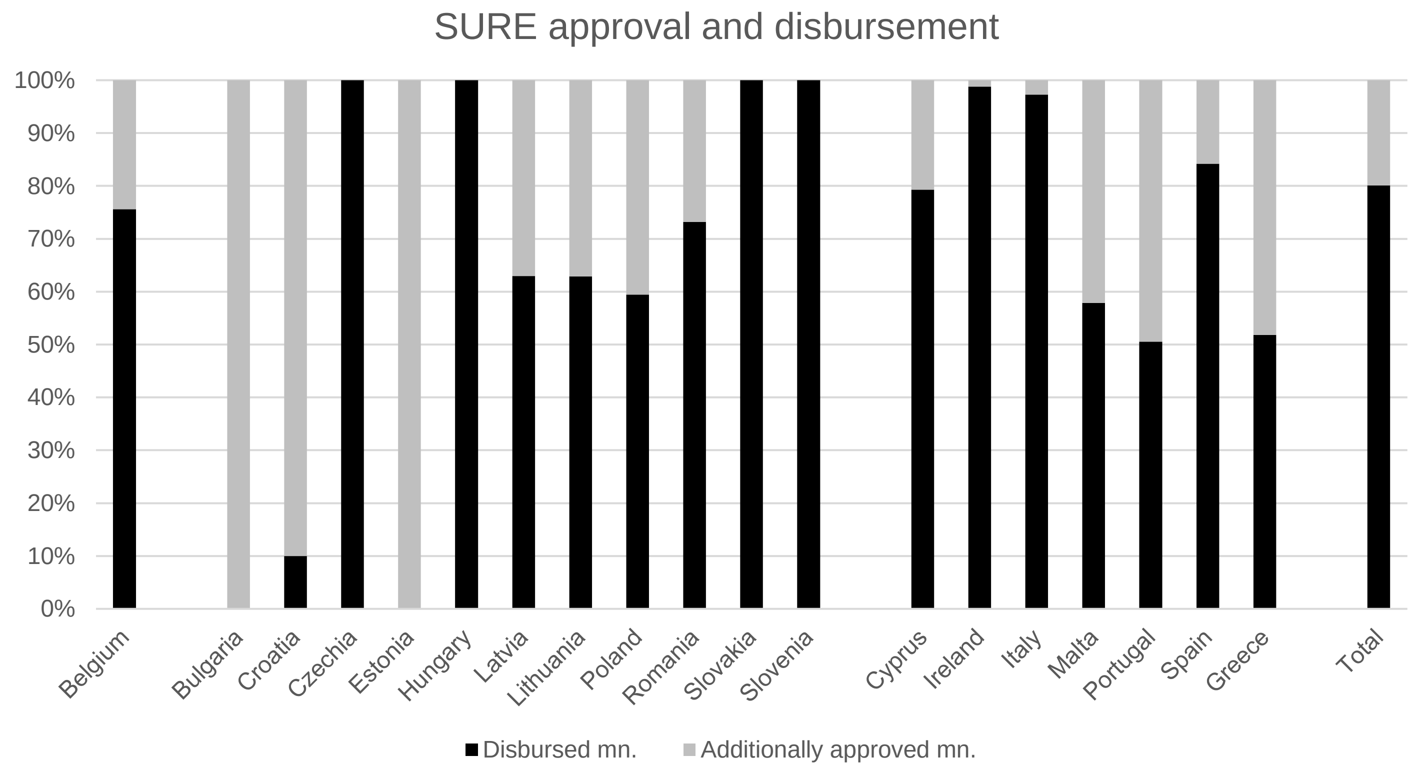
SURE Overview

- Art. 122 TFEU: Solidarity clause
- “financing, primarily, of short-time work schemes or similar measures aimed at protecting employees and the self-employed and thus reducing the incidence of unemployment and loss of income, as well as for the financing, as an ancillary, of some health-related measures, in particular in the workplace”
- 100 bn. €, concentration rule (max. 60% to top 3)
- Member states guarantees
- 5-30 year maturities

SURE Implementation



SURE Implementation



SURE: Implementation

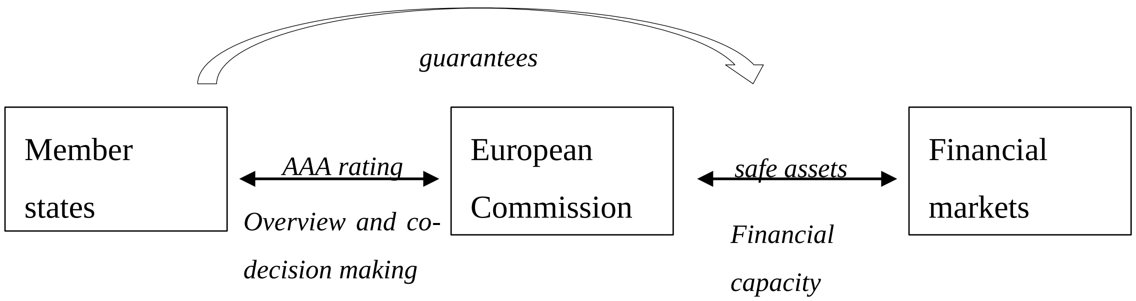
Table 6 – Characteristics of national short-time work schemes supported by SURE

Member State	New Scheme	Permanent/Temporary scheme	Amount of support (% of salary)	Costs for the employer	Reduction of working time
BE	No	Permanent (with temporary modifications)	70%	-	0-100%
BG	Yes	Temporary	60%	40% of labour costs	50% or 100%
CZ	Yes	Temporary	60-80%	20-40% of the indemnity	0-100%
IE	-	-	-	-	-
EL	Yes	Temporary	60%	-	50% or 100%
ES	No	Permanent (with temporary modifications)	70%	0-30% of social contributions	0-100%
HR	Yes	Temporary	50%	-	0-100%
IT	No	Permanent (with temporary modifications)	80%	-	0-100%
CY	Yes	Temporary	60%	-	0-100%
LV	Yes	Temporary	50-75%	-	0-100%
LT	Yes	Temporary	30-100%		0-100%
HU	-	-	-	-	-
MT	-	-	-	-	-
PL	Yes	Temporary	50%	-	20-100%
PT	No	Permanent (with temporary modifications)	66-100%	0-30% of the indemnity	0-100%
RO	Yes	Temporary	75%	-	0-100%
SI	Yes	Temporary	80%	0-20% of the indemnity	50-100%
SK	No	Temporary (but regularly renewed)	80%	-	0-100%

Source: European Commission (2021): SURE. Taking Stock After Six Months. COM(2021) 148 final, 22.03.2021.

SURE Implementation

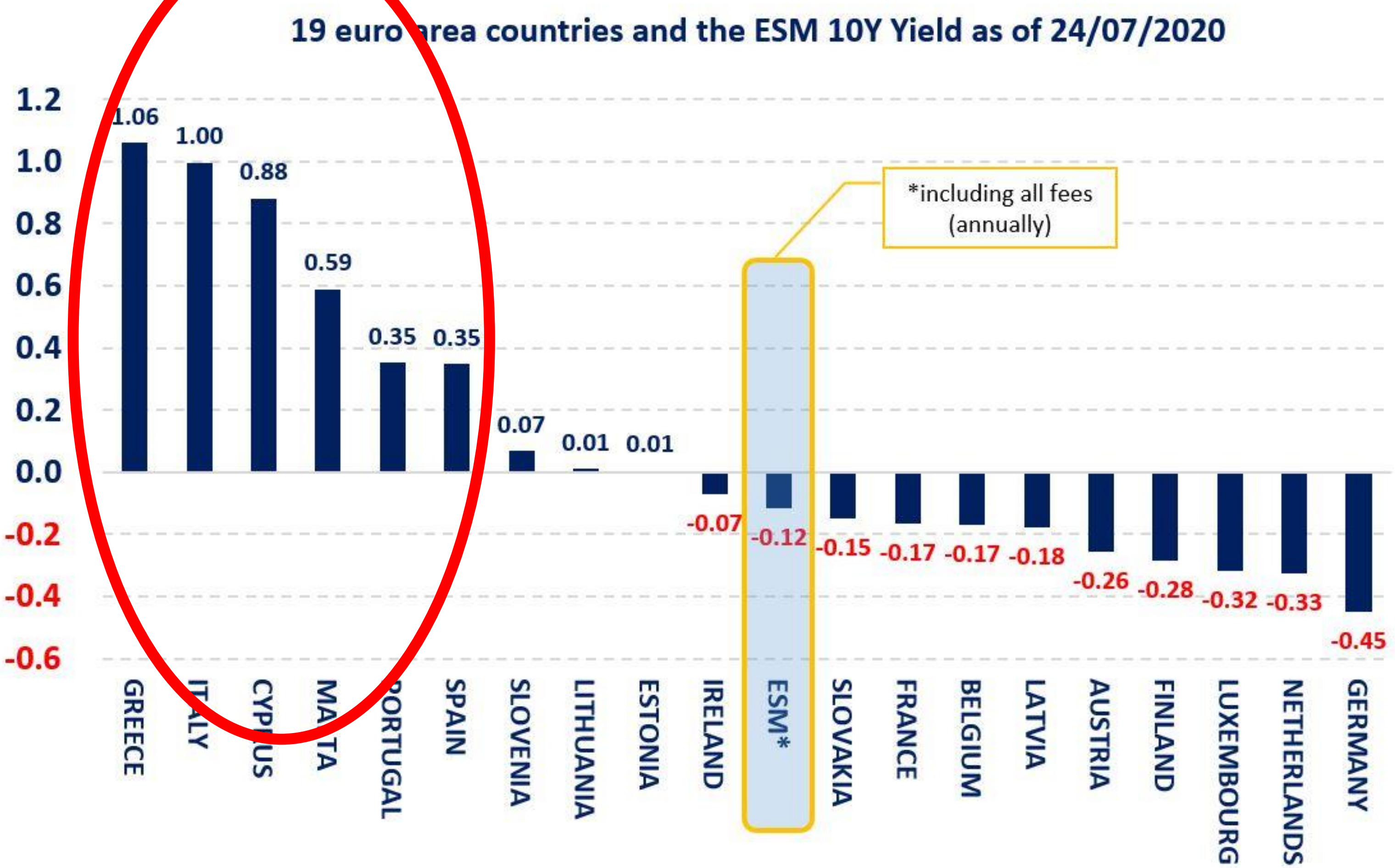
- Italy, Spain, and Poland have reached concentration rule
- Very high expenditure spring/summer 2020
- Member states have achieved interest savings of up to 2.8 bn. € (Italy) or 30.5% (Hungary) compared to counterfactual
- Very high bid-to-cover ratio (8-15)
- European Commission as financial intermediary
- Production of financial scarcity



Pandemic Crisis Support Overview

- “domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID 19 crisis”
- Enhanced Conditions Credit Line (ECCL)
- Art. 14 (2) ESM Treaty
- 10 year maturity
- 240 bn. €, part of ESM financial framework
- Max. 2% 2019 GDP
- No negative conditionality

Pandemic Crisis Overview Implementation

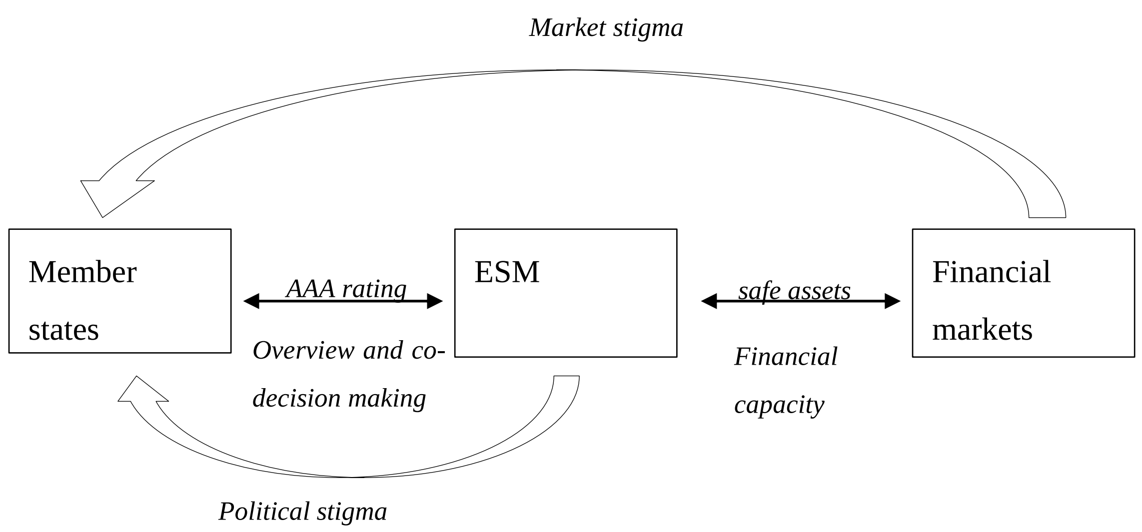


Source: Why the Covid-19 credit line still makes sense | European Stability Mechanism (europa.eu)

Pandemic Crisis Support Implementation

Why does no member state apply to the PCS?

- Political stigma: Application to ESM lead to political costs for governments at home (Guttenberg 2018; 2020)
- Market stigma I: Application to ESM as indication of financial trouble leads to higher borrowing costs (Pastore 2020)



Political or market stigma: The case of Italy

- Supply (PCS) –demand (Italy) -model insufficient
- European politics (May 2020-today)
  - Support: ESM, Commission, Eurogroup, core member states governments (Germany, Netherlands)

    - PCS is there to be used

    - Financial market actors show confidence → no credit agency downgrating etc.
  - Simultaneous debate on NextGenerationEU: European Council conclusion 21 July 2020
  - Application to ESM loans threatens recovery fund negotiations

Political or market stigma: The case of Italy

- Domestic politics (May-January 2021)
  - Support: ‘traditional’ centre parties (PD, IV, FI)
    - free money for healthcare spending
  - Opposition: Eurosceptic and populist parties (5 Star, Lega)
    - conditionality through the back door
    - high market fluctuation for Italian government bond yields
  - Preference order of Italian public: Italexit>conditionality

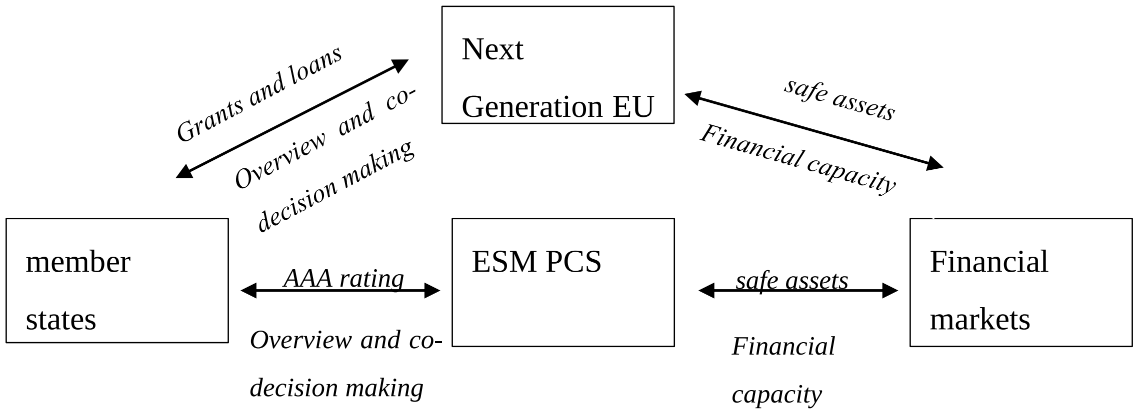
Overall assessment: Negative mid- and long-term consequences on European financial architecture prevent Italian application

Domestic politics risk AND European negotiations risk AND market risk assessment!

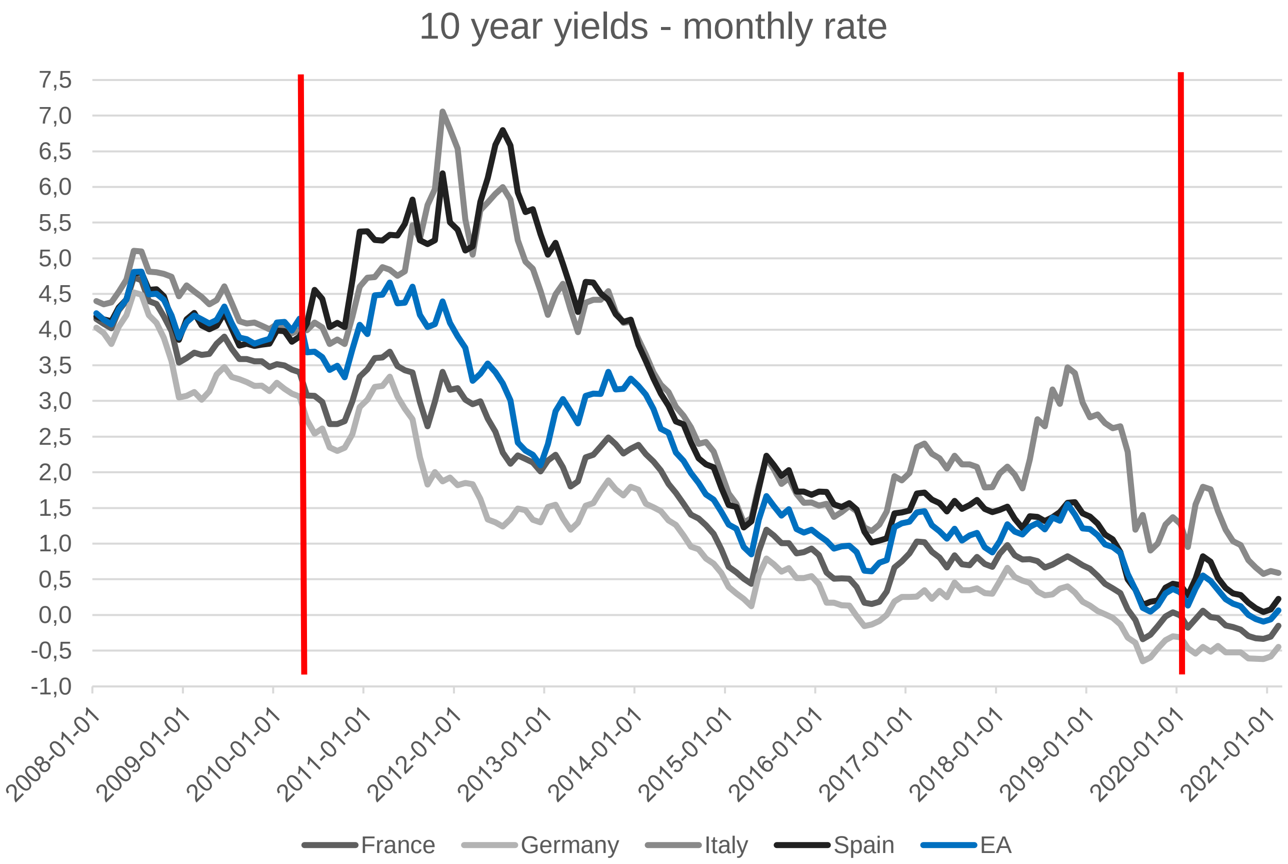
Pandemic Crisis Support Implementation

Why does no member state apply to the PCS?

- ESM as financial intermediary: Production of abundance
  → Wasted potential
- Political-economic cost-benefit-calculation at home and in EU make it unattractive for crisis countries
- Original proposal that all ESM member states should apply (Bénassy-Quéré et al. 2020) may have helped to avoid politicisation



PCS Implementation: monetary solidarity

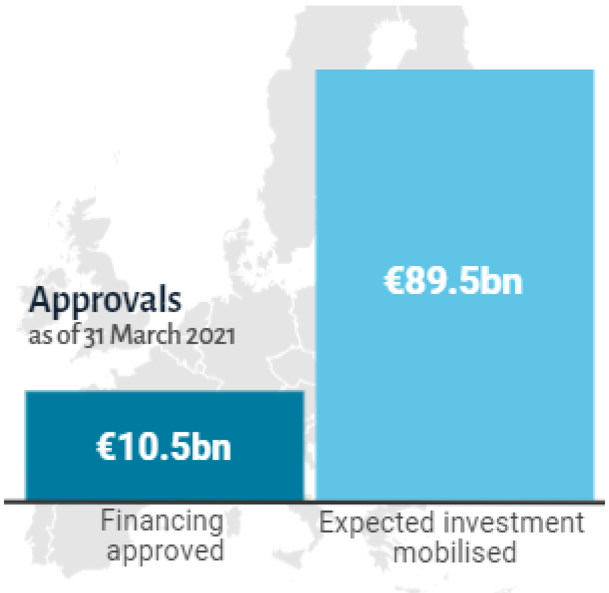


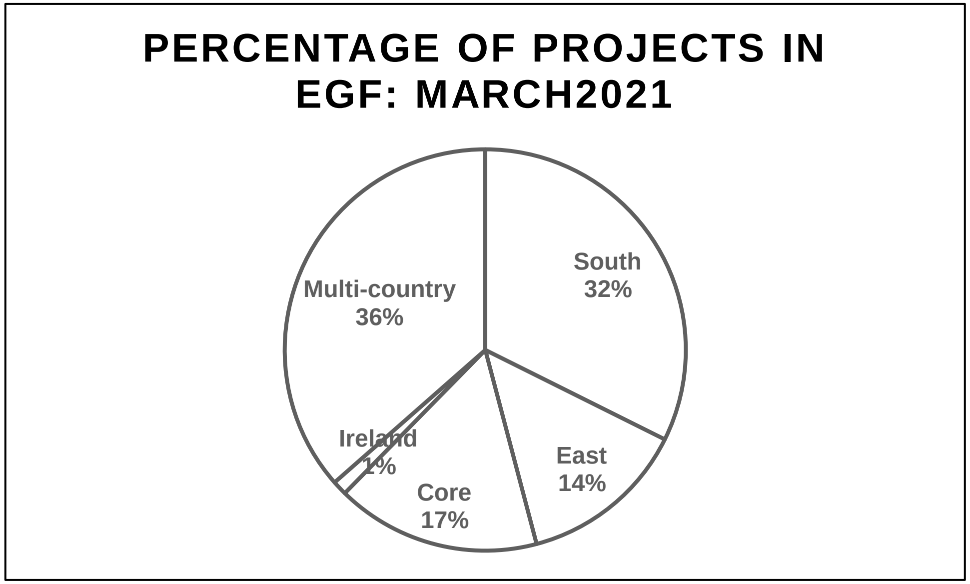
European Guarantee Fund: Overview

- EIB/EIF
- 25 bn. € investment in businesses, primarily SMEs
- Mobilisation of 200 bn. € private investment
- No specific conditionality waivers
- Regional and company-size diversification
- State-aid reglementation
- Similar to InnovFin and EFSI

European Guarantee Fund: Implementation

- Opt-out of Czech Republic, Estonia, Hungary, Latvia and Romania
- Reduced size 24.4 bn. €
- quick set-up, but EIB mid- to long-term financing institution





Assessment

- SURE:
  - Safety net effect
  - Southern and (to somewhat lesser extent) Eastern periphery profit
- PCS:
  - Backstop effect
  - Southern periphery would profit
- EGF:
  - business as usual
  - Focus on South: some East member states opt-out
- Overall
  - Monetary solidarity with fiscal elements
  - No 540 bn. € effort
  - Limited solidarity with Southern (and Eastern) periphery
  - No long-term institutionalisation on national/European level

Get in touch!

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