

SGI PROVIDERS AND EMPLOYERS FACING THE COVID-19 OUTBREAK

THE DESIGN OF AN EFFICIENT AND UNIFIED ECONOMIC RESPONSE

Executive Summary

- The crisis triggered by the COVID-19 outbreak is expected to be amongst the most violent ever, with social consequences aggravated by its very nature. It has clearly shown how crucial the **provision of public services and SGIs, such as healthcare, water, energy, waste management, telecommunications, education, housing and transport, is to the well-being of citizens and the economic resilience of the EU.**
- Whilst the economic and social impact of the COVID-19 outbreak remains difficult to estimate, we urgently need measures aimed at protecting economic structures in order to avoid their collapse and, in the near future, enable their full rehabilitation and the consequent re-establishment of growth.
- This CEEP paper on the COVID-19 outbreak will focus on the immediate economic response and its instruments, highlighting the institutional constraints that must be tackled in order to build an efficient and unified approach at the EU level, and focusing on the following:
 - **The European Stability Mechanism:** The use of the ESM to face symmetric shocks can only be effective if its provisions are adapted to the specific challenge, including in this case a long duration and a commitment by Member States to full transparency.
 - **The European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE):** SURE funding must effectively be dedicated to measures protecting employees and self-employed against the risk of unemployment and loss of income, and should therefore be transparent and monitored in the context of the European Semester, in cooperation with the social partners.
 - **The Coronavirus Response Investment Initiative and the suspension of the SGP:** It is essential that these new resources properly address the urgent needs of the actors fighting the COVID-19 outbreak and CEEP welcomes the commitment of the EU institutions to a fast track approach for adoption and implementation. Beyond the immediate emergency, the challenge ahead lies in dealing more constructively with fiscal consolidation whilst keeping debt levels at sustainable levels.
 - **The role of the European Central Bank:** The ECB is providing a comprehensive financial protection shield for Europe and the Euro area in this sense. However, the ECB cannot act alone and there is an urgent need for an EU fiscal policy and a solidarity between Member States to further materialise in order to properly tackle this crisis.

INTRODUCTION

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

As consumption, private investment and international exchanges of goods and services are already highly compromised, governments must play a strategic role, which should consist in:

- Guaranteeing the necessary provisions to contain the spread of the virus and providing effective healthcare infrastructures, including the provisioning of sufficient medical and care capacities, the stocking of medical, sanitary and hygienic material, the acquisition of reliable data concerning infection rates etc allowing reliable forecasts and a well-functioning co-operation between the health care sector, virologic institutes and governments.
- Protecting economic structures in order to avoid their collapse and, in the near future, foment their full rehabilitation and the consequent re-establishment of growth.

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

As the European cross-sectoral social partner representing the essential services that are in the front line of the fight against the COVID-19 outbreak, CEEP intends to contribute to the immediate, the medium and the long-term solution.

Our members employ indeed over 60 million workers, contribute to approximately 26% of the EU GDP and – due to their essentiality – represent a large percentage of the activities that remain operational throughout the crisis. Public services and SGIs are the backbone of our social market economy since they provide the very infrastructure without which the whole EU socio-economic system would not be able to function. Therefore, the lack of an appropriate framework capable of supporting those essential services would seriously jeopardize our economy's overall capacity to recover.

CEEP, to ease the restarting after the crisis, will promote efforts, also at national level in cooperation with its national sections, to support investment plans to reinforce the infrastructures and make them more resilient, and so that emergency provisions are geared towards improving service provision after the epidemic (e.g. learning from this forced smart working experience to achieve a better work organization in terms of family-and-work conciliation or environmental benefits of reducing commuting and developing digitalisation).

General principles

This **CEEP paper on the COVID-19 outbreak will focus on the immediate economic response** and its instruments, highlighting the institutional constraints that must be tackled in order to build an efficient and unified approach at the EU level. Our focus will address the economic and social response to COVID-19 as our main contribution. **Sectoral, local and national social partners are indeed much better placed to issue guidelines on specific measures to bring sectors, regions and Member States out of the containment measures.**

In that respect, the role of an EU cross-sectoral social partner is limited by nature and can only resolve in general recommendations such as:

- **Public health principles should prevail on economic ones:** Notwithstanding the importance of restarting the economy to contain the economic and social impacts of the crisis, the protection of public health, linked with a serious evaluation of national healthcare capacity, should remain the first guiding principle;
- **Solidarity and cooperation between Member States should be maintained in the context of lifting containment measures:** It is evident that a one-size-fits-all approach is impossible in designing exit strategies, although setting general principles could help the process. Different territories and different sectors within the same territories are unevenly affected. On the other hand, the need for coordination arises from significant externalities due to the epidemic (e.g. cross-border movement limitations associated with different level of contagion).
- **A series of general principles and guidelines should be issued at European level,** in order to avoid that differentiated approaches result into transforming a symmetric shock into an asymmetric one. This could go as far as creating distortion of competition and increasing social dumping and would be contrary to the past five years of EU policies, which were aimed at increasing economic and social convergence between and within Member States.

When **translating those general principles** and the roadmap **into an action plan**, it will be essential to issue **protocols adapted to the different sectors:** only by doing so social partners can contribute with solutions adapted to the different realities in the different work places.

The European Stability Mechanism

The use of the European Stability Mechanism (ESM) to face a symmetric shock such as the COVID-19 outbreak can only prove **effective if its provisions are adapted to the specific challenges.** Whilst the amount is far from being sufficient, we recognise the added-value of the immediately available lending capacity of €410bn (the equivalent of 3,4% of the euro area GDP) provided by the ESM and which could be lent to Member States who urgently need it. We therefore **support the proposal by the Eurogroup to establish a Pandemic Crisis Support, based on the ECCL (Enhanced Conditions Credit Line) precautionary credit line.**

Amongst existing tools, the ECCL seems the most suitable ESM-related instrument to respond to the challenges of the COVID-19. It should however, as proposed by the Eurogroup on 9 April, be based on the exclusive conditionality that **Member States requesting support commit to using it exclusively for direct and indirect healthcare, cure and prevention-related costs of the COVID 19-outbreak.** We

consider that **indirect healthcare cure and prevention costs include critical locally based SGIs** on the first line and call upon heads of state and of government to make this point clear at their Council video conference of 23 of April.

It will also be important to clarify that the COVID-19 credit line through **the ESM should have a long duration**, to be used by Member States to finance the immediate COVID-19 relief effort. Allocation across Member States should be proportionate to the severity of the public health and economic challenges encountered. The duration of these credit lines should be very long: all Member States will emerge from the COVID-19 crisis severely weakened and will not be in a position to repay soon. Consequently, the new bonds issued by the ESM should be of very long maturity.

Finally, the ESM framework must enable Member States to put forward comprehensive and tailor-made mixes of fiscal measures comprising **COVID-19 related immediate direct spending and/or tax cuttings, deferrals as well as other additional actions** (such as credit lines) **to secure appropriate levels of liquidity.**

The European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE)

The COVID-19 outbreak has revived discussions on Member States' stabilisation needs and opened the door for the EU to play a more structured role in this perspective. CEEP strongly welcomes the move in this direction as it represents an **important step towards a unified EU response and to enhancing the EU coordinating role in crisis management.** Given the unprecedented nature of the current shock and the uncertainty regarding its overall impacts and length, the EU decision to develop stabilization tools is crucial and exposes the need to rethink, in the near future, **the current economic governance structures at EU level in order to improve its ability to respond promptly and sustainably to such symmetrical shocks.**

CEEP has called, in its letter of 26 March to the European Council¹, for the EU institutions to demonstrate their flexibility and responsiveness by providing all additional support possible under the Article 122(2) TFEU². **In this context, CEEP welcomes the European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) as a timely European response.**

CEEP insists that the SURE funding must effectively be dedicated to measures protecting employees and self-employed against the risk of unemployment and loss of income. To accomplish this, SURE should be marked by **transparency** and Member States should **fully disclose the list of measures taken under SURE funding** within the context of the European Semester on top of the already-listed reporting obligations at the article 14 of the draft Council regulation *on the establishment of an European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 virus outbreak*. CEEP calls upon national and EU social partners to fully

¹ CEEP Letter to the European Council, 26 March 2020, https://www.ceep.eu/wp-content/uploads/2020/03/CEEP-20-013-Letter-to-the-European-Council_COVID19.pdf

² Article 122(2) TFEU: "Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned. The President of the Council shall inform the European Parliament of the decision taken.", <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E122:EN:HTML>

participate in the design and the rolling-out of the measures supported by SURE. EU social partners could be involved in the framework of the Employment Committee of the EPSCO Council (art 14).

The Coronavirus Response Investment Initiative and the suspension of the SGP obligations

CEEP welcomed the different measures proposed for rapid adoption by the European Commission, in particular the €37bln Coronavirus Response Investment Initiative (CRII) to support healthcare systems, SMEs and the labour market. CEEP also strongly welcomed the additional €28bln of structural funds which will be made fully eligible for these expenditures. It is essential that these new resources properly address the urgent needs of the actors fighting the COVID-19 outbreak and CEEP welcomes the commitment of the EU institutions to a fast track approach for adoption and implementation.

The **suspension of the Stability and Growth Pact (SGP) obligations and the activation of the general escape clause was also welcomed** as a positive step by CEEP, as it allows the extra spending to mitigate the impacts of the COVID-19 outbreak. Beyond the immediate emergency, the challenge ahead lies in dealing more constructively with fiscal consolidation whilst keeping debt levels at sustainable levels. CEEP calls for a **more gradual adjustment** once this crisis recedes and for the maintenance of enough **room to allow for the enhancing of public growth-friendly expenditures.**

The role of the European Central Bank

National governments must play a strategic role in guaranteeing that the necessary provisions to contain the spread of the virus are taken and re-establishing economic activities. **Member States have already announced, and started to implement, fiscal boosts equivalent to at least 2,5% of their combined GDP.** These measures should help alleviate the sudden and large cash problems encountered by households and enterprises as a consequence of lockdown measures.

However, it is estimated that the fiscal bill for the disaster relief alone could reach up to 5% of GDP. This suggests that **the EU should double its effort just to help households and enterprises survive through the coming months.** The EU must play a leading role when it comes to the development and promotion of counter-cyclic measures and **work in close cooperation with the European Central Bank in order to identify harmonized fiscal policies to mitigate the economic impacts of the crisis.**

The ECB has already enacted important initial measures aimed at supporting liquidity and funding conditions for households, enterprises, and banks and which should help smooth the provision of credit to the real economy and avoid the risk of fragmentation. **The ECB is now providing a comprehensive financial protection shield for Europe and the Euro area in this sense. However, the ECB cannot act alone and there is urgent need for an EU fiscal policy and a solidarity between Member States to further materialise in order to properly tackle this crisis.**